

1.4 Corporate Governance Report

Corporate governance, as practised by Zalando, involves responsible management and control of the company geared towards long-term goals. ZALANDO SE's Management Board and Supervisory Board value good corporate governance very highly and align their approach to the recommendations set out in the German Corporate Governance Code. In the following, the Management Board and Supervisory Board submit the corporate governance report together with the statement on corporate governance in accordance with Sections 289f and 315d HGB (German Commercial Code), as the content of the two is closely linked. In accordance with Sections 289f and 315d HGB, the statement on corporate governance forms part of the management report.¹⁰

1.4.1 Declaration of Conformity

Declaration by the Management Board and the Supervisory Board of ZALANDO SE regarding the recommendations of the Government Commission German Corporate Governance Code pursuant to Section 161 Aktg (German Stock Corporation Act).

The Management Board and Supervisory Board submitted the annual declaration of conformity pursuant to Section 161 AktG in December 2017. The declaration of conformity of December 2017 is made available on the company's website.



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The Management Board and the Supervisory Board of ZALANDO SE declare that ZALANDO SE has, since the publication of the last annual declaration of conformity in December 2016 and except for the deviations stated and explained therein, acted in conformity with the recommendations of the Government Commission German Corporate Governance Code in its version of May 5, 2015, published by the Federal Ministry of Justice and Consumer Protection on June 12, 2015, in the official section of the Federal Gazette (Bundesanzeiger) as well as with the updated version of the recommendations dated February 7, 2017, published by the Federal Ministry of Justice and Consumer Protection on April 24, 2017, in the official section of the Federal Gazette (Bundesanzeiger) (hereinafter the "Code").

The Management Board and the Supervisory Board of ZALANDO SE declare that ZALANDO SE will in the future act in conformity with the recommendations of the Code with the following deviations:

- **No. 3.8 Paragraph 3:** according to the Code's recommendations, a deductible shall be agreed upon for the members of the Supervisory Board when taking out D&O policy. The company takes the view that such a deductible is not in itself suitable to increase the performance and sense of responsibility of the Supervisory Board members. Furthermore, it reduces the attractiveness of Supervisory Board positions and thus the company's opportunities when competing for qualified Supervisory Board candidates.
- **No. 4.2.1 Sentence 1:** according to the Code's recommendations, the Management Board shall have a chairman or spokesman. So far the three members of the Management Board of ZALANDO SE have worked together on an equal footing without any member performing the function of chairman or spokesman. The Supervisory Board does not see any reason why it should change this established and successful cooperation.

¹⁰⁾ The statements on corporate governance in accordance with Sections 289f and 315d HGB are unaudited part of the combined management report.

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- **No. 4.2.3 Paragraph 2 Sentences 4, 6 and 7:** according to the Code's recommendations, both positive and negative developments shall be taken into account when determining variable components of the compensation paid to members of the Management Board. The amount of compensation shall be capped, both overall and for the variable compensation components, and the variable compensation components shall be related to demanding, relevant comparison parameters. The current compensation system for the Management Board, which had been determined before the initial public offering and thus before the application of the Code's recommendations, provides for a share option scheme as the variable component of the Management Board compensation, which was assessed to be appropriate by an independent compensation consultant.
- This share option scheme does not contain an explicit rule requiring the consideration of negative developments. It includes performance targets linked to the average annual growth rate of the aggregated retail value of all sales transactions with persons or enterprises not belonging to the Zalando group. Negative developments are taken into account only by the fact that the execution of option rights, due to the strike price for the execution of the option rights, can become unattractive; therefore, we declare, for reasons of precaution, a deviation from No. 4.2.3 paragraph 2 Sentence 4. With regard to the recommended cap for the amount of compensation within the meaning of No. 4.2.3 paragraph 2 Sentence 6, the share option program provides for a cap in relation to the number of shares that will be allocated upon the exercise. No cap is foreseen on the achievable amount upon the exercise of the share options. In the opinion of the Supervisory Board, such a cap would not be appropriate as it would interrupt the alignment of interest between the shareholders and the members of the Management Board. According to its rationale, the share-based compensation aims to achieve adequate participation in the economic risks and chances of the company by the members of the Management Board. As no cap in relation to the variable component is determined, consequently also no cap in relation to the overall amount of the compensation is determined, so that a deviation from No. 4.2.3 paragraph 2 Sentence 6 is declared. Lastly, it cannot be excluded that the agreed performance targets do not comply with the requirements laid down by the Code regarding demanding parameters. Therefore, we also declare, for reasons of precaution, a deviation from No. 4.2.3 paragraph 2 Sentence 7.
- The Supervisory Board is convinced that the option scheme for the Management Board is well balanced and appropriate. In the opinion of the Supervisory Board, the compensation, due to the variable, i.e. share-based, compensation component being linked to the share price and due to the long-term nature of the defined targets as well as the significant strike price for exercising the share options, is oriented toward the situation of the company and its long-term positive development.
- **Nos. 4.2.4 and 4.2.5:** according to the Code's recommendations, the compensation of the members of the Management Board shall be disclosed by name, divided into fixed and variable components as well as fringe benefits. These recommendations are not complied with because the general meeting of ZALANDO SE resolved on 11 July, 2014 in accordance with Sections 286 (5), 314 (3) Sentence 1, 315e (1) (previously 315a (1)) HGB in connection with Article 61 of the SE Regulation that the compensation of the members of the Management Board shall not be disclosed by name in the annual and consolidated financial statements of ZALANDO SE to be prepared for fiscal years 2014 up to (and including) 2018. For the duration of a corresponding "opt-out" resolution passed by the general meeting, the company will

abstain from including in the compensation report the disclosures recommended under No. 4.2.5 paragraph 3 of the Code in individualized form.

- **No. 5.1.2 Sentence 2:** according to the Code's recommendation the Supervisory Board shall take diversity into account when appointing Management Board members. The Supervisory Board acknowledges and appreciates the importance of diversity. With regard to the Management Board's composition, qualification shall still be the decisive criterion. The Supervisory Board strives to adequately consider the various fields of core competences of the business model. For the time being, the Supervisory Board does not apply a specific diversity concept with respect to the Management Board. The Supervisory Board hereby takes into account that the company since its founding in 2008 has always been and still is a founder-led company with a very lean Management Board structure of only three members cooperating on an equal footing. This lean structure has proven successful in the past. Besides, the Supervisory Board acknowledges that the Management Board for its part appreciates and promotes the importance of inclusion and diversity in the company overall and in the management of the company in particular. The Management Board targets to further increase the diversity in the management levels below itself, paying attention particularly to a variety of professional experience and expertise, aiming for an appropriate consideration of women and internationality. The Supervisory Board will continuously reconsider this decision on a diversity concept in the long-term succession planning and develop a diversity concept for the Management Board in the future when considered appropriate.

1.4.2 Corporate Governance

ZALANDO SE's corporate governance is determined in particular by applicable law, the recommendations set out in the German Corporate Governance Code, and internal rules of procedure and guidelines.

Sustainable corporate governance is ensured by combining economic success with environmentally compatible and socially balanced activities. The company sees investments in corporate responsibility as an essential success factor for the business to maintain its social license to operate, and wants to engage employees, customers, and partners. Detailed information on Zalando's corporate responsibility strategy and activities can be found in the Corporate Responsibility section on page 12.

A system of internal financial reporting controls is in place to ensure the accuracy of bookkeeping and accounting and the reliability of financial reporting, which comprises preventive, monitoring, and detection measures designed to ensure security and control in accounting and operational functions.

The company maintains a Governance, Risk & Compliance (GRC) Department to detect, manage, and monitor risks and opportunities at an early stage. The GRC Department's manual was updated in the reporting period to reflect the increasing complexity of its internal organization and increasing scope of responsibilities. The GRC Department ensures that risks and opportunities are assessed and managed using a uniform approach throughout the company. Potential compliance risks are included in this assessment. All employees of Zalando are required to be aware of risks inherent in their work and prevent risks that could jeopardize the company's



Further Information
Corporate Responsibility
p. 12



GRI 103-1/-2/-3 MA
Anti-Corruption
GRI 102-11
GRI 205-1

Further Information Risk and
Opportunity Report p. 107

ability to continue as a going concern. Zalando's compliance management system institutes guidelines and offers advisory services and trainings to employees to prevent compliance infringements such as, inter alia, corruptive behavior (including, but not limited to, extortion, fraud, or bribery), violations of antitrust law, data protection regulations, or insider law. In the reporting period, all compliance-related trainings (face-to-face trainings as well as e-learnings) were integrated into Zalando's training platform. Mandatory compliance trainings (carried out as face-to-face training for leads and as e-learning for remaining employees) give all employees the overview on compliance at Zalando, our Code of Ethics, Code of Conduct and selected essential policies, including anti-corruption related policies, e.g. our Group Policy Benefits & Gifts. Furthermore, they reinforce awareness of the significant regulatory framework and internal rules and regulations and provide information regarding the established processes within the compliance management system.

All employees are also assigned a basic data protection e-learning. Furthermore, trainings on specific topics such as antitrust law, insider trading, or deep-dive trainings on data protection are carried out for specific groups of employees. Selected trainings, such as currently data protection, security- or antitrust-related trainings must be repeated annually.

Each mandatory training must be repeated regularly, typically every two years. The employee receives an automatic reminder to fulfill his training obligations. If an employee does not fulfill his obligations, the lead will be informed and reminded repeatedly until the training is completed. The outreach of the Compliance function was furthermore increased by face-to-face trainings in Zalando's subsidiaries outside Berlin and by integration efforts regarding newly acquired companies, which also involved intensive face-to-face onboarding on Zalando's compliance standards, processes, and policies. New employees are immediately instructed on compliance during the onboarding process.

The company's Code of Ethics, which is available on the corporate website and was communicated to the employees in various languages, sets expectations and provides guidance on how Zalando wants to do business and is the basis of all group policies. Under the Code of Ethics, all employees are required inter alia to comply with anti-corruption practices, anti-trust regulations and insider compliance provisions. The details are set out in internal guidelines and policies.



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The Code of Ethics also stipulates the obligation for all employees to comply with our high data protection standards, which are set out in internal policies and guidelines as well. Protecting personal data and collecting, processing, and using the data in accordance with the law are very important concerns to Zalando as a tech company. Specialized teams ensure that the requirements for data security are complied with in all business divisions. Zalando complies with European and national data protection regulations which is one of the strongest worldwide and we closely monitor the changing legal requirements.

GRI 102-16
GRI 103-1/-2/-3
MA Customer Privacy
GRI 418-1

In the reporting period, Zalando has furthermore updated its Code of Conduct for Business Partners and published it on the corporate website. It clearly states that Zalando does not accept any form of corrupt practices including, but not limited to, extortion, fraud, or bribery. Business Partners are expected to comply with applicable national and international regulations and shall establish appropriate anti-bribery and anti-corruption policies, which shall be communicated to

all business areas. Zalando carries out Business Partner due diligence for defined group of business partners and in cases where potential compliance risks are apparent.

Various communication channels have been installed to facilitate the reporting of presumed compliance infringements to the Compliance function – on an anonymous basis if preferred. The anonymous and protected reporting channels are available to employees as well as third parties. A compliance panel has been set up to clarify and assess potential compliance infringements. In fulfilling its duties, the GRC Department works in close collaboration with the Legal Department and Internal Audit to ensure a uniform approach to appropriately evaluating and mitigating risks across functions. The Management Board bears overall responsibility for the proper functioning of the risk and compliance management system and the Supervisory Board monitors the effectiveness of the system.

Information on detected compliance infringements, important updates of processes or policies, as well as training attendance quotas are reported to the Management Board at least on a quarterly basis in a review format together with the General Counsel and experts from Internal Audit and Tax.

1.4.3 Management Board and Supervisory Board Procedures

Management Board Procedures

The Management Board bears responsibility for managing the company's business. It is bound to act in the interest of the company and to increase the long-term value of the company. The three members of the Management Board, Robert Gentz, David Schneider, and Rubin Ritter, manage the company in partnership and, as members of the Management Board with equal rights, are responsible for the company's strategy and its day-to-day implementation.

The Management Board develops the company's strategy, consults regularly with the Supervisory Board on this, and ensures that it is implemented. It also manages the company's business transactions with the diligence of a prudent and conscientious manager. The Management Board's collaboration with other corporate bodies and employee representatives is open and trusting for the benefit of the company.

The collaboration and responsibilities of the Management Board members are determined in the Rules of Procedure set out by the Supervisory Board. Each member of the Management Board has sole responsibility for the area of business allocated to him. Each area of business is managed consistently by aligning it to targets agreed upon in resolutions passed by the Management Board. The members of the Management Board take joint responsibility for the overall management of the company irrespective of the allocation of areas of business. They work collaboratively and inform each other constantly about any significant measures and events within their areas of responsibility.

The Management Board meets regularly, typically every two weeks. The Management Board is in regular contact with the chairperson of the Supervisory Board, informs him on the progress of the business and the situation of the company and of group entities and consults with him on strategy, planning, business development, and risk management within the company. Should an important

event occur or should any business issue arise that could be of significant importance to the evaluation of the situation, the development or the management of the company, the Management Board informs the chairperson of the Supervisory Board immediately.

Each member of the Management Board is obliged to disclose any conflicts of interest to the Supervisory Board immediately. All transactions between the company or group entities and the members of the Management Board as well as their related parties must be conducted at arm's length conditions and material transactions require Supervisory Board approval.

Composition of the Management Board

The Management Board currently does not have any female members. The female representation target according to Section 111 (5) AktG of 0% was met within the determined deadline of June 30, 2017. The Supervisory Board renewed its resolution in accordance with Section 111 (5) AktG to establish a female representation target of 0% to be achieved by June 30, 2022. The Supervisory Board acknowledges and appreciates the importance of diversity. A diverse composition of management and supervising bodies can promote new perspectives in decision-making processes and discussions and help to further improve performance. For the time being, the Supervisory Board does not apply a specific diversity concept with respect to the Management Board. The Supervisory Board takes into account that the company since its founding in 2008 has always been and still is a founder-led company with a very lean Management Board structure of only three members cooperating on an equal footing. This lean structure has proven successful in the past. Besides, the Supervisory Board acknowledges that the Management Board for its part appreciates and promotes the importance of inclusion and diversity in the company overall and in the management of the company in particular. The Management Board aims to further increase the diversity in the management levels below it, paying attention particularly to a variety of professional experience and expertise, aiming for an appropriate consideration of women and internationality. The Supervisory Board will regularly reconsider this decision on a diversity concept in the long-term succession planning and develop a diversity concept for the Management Board in the future when considered appropriate. While performance and qualification rather than age are and will remain the decisive factors when selecting Management Board members, such members should not be older than 65 when elected.

GRI 103-1/-2/-3 MA Diversity
and Equal Opportunity
GRI 405-1



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Supervisory Board Procedures

The Supervisory Board advises and monitors the Management Board on the management of the company. It is directly involved in decisions of fundamental importance to the company. The Supervisory Board works with the company's best interest in mind in close and trusting collaboration with other corporate bodies, in particular with the Management Board. ZALANDO SE's Supervisory Board has nine members, three of whom are employee representatives.

Members of the Supervisory Board in Fiscal Year 2017

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 Dominik Asam (member since May 31, 2017)*

 Lorenzo Grabau (member and deputy chairperson until May 31, 2017)*

 Lothar Lanz (chairperson)*

 Jørgen Madsen Lindemann*

 Anders Holch Povlsen (deputy chairperson since May 31, 2017)

 Shanna Prevé (member since May 31, 2017)*

 Kai-Uwe Ricke (member until May 31, 2017)*

 Dylan Ross*

 Alexander Samwer*

 Konrad Schäfers*

 Beate Siert*

*) Considered independent members of the Supervisory Board in the meaning of Section 5.4.2 of the German Corporate Governance Code.

The Supervisory Board has adopted Rules of Procedure. They govern the procedures and allocation of duties of the Supervisory Board and its committees. The Supervisory Board convenes at least one meeting per quarter; further meetings are convened as necessary. The Supervisory Board regularly reviews the efficiency of its activities. In addition to the qualitative criteria to be determined by the Supervisory Board, the purpose of the review includes assessing the procedures in the Supervisory Board, as well as the information provided to the Supervisory Board, both in terms of timing and whether the content is sufficient.

Each member of the Supervisory Board must disclose conflicts of interest to the Supervisory Board, particularly those that might arise as a result of an advisory or committee function at customers, suppliers, creditors, borrowers or other third parties. If a member of the Supervisory Board has a significant, non-temporary conflict of interest, that member of the Supervisory Board should resign from office.

The Supervisory Board has set up an audit committee, a remuneration committee and a nomination committee. These committees comprise at least three members each.

Composition of the Supervisory Board

The Supervisory Board of ZALANDO SE has set targets regarding its composition. It strives for a composition that takes account of and safeguards the particular needs of the company so that the Management Board is monitored, supervised, and advised in a competent and professional manner. Every member of the Supervisory Board has the knowledge, skills, and professional experience needed to properly fulfill his or her duties and responsibilities. The Supervisory Board has prepared a profile of skills and expertise for the entire board. The competence profile of the Supervisory Board as a whole comprises industry competence (in particular in the fields of fashion, technology and commerce) and finance competence as well as competencies in the areas of strategy,

GRI 103-1/-2/-3 MA Diversity
and Equal Opportunity
GRI 405-1

supervision and innovation. The members of the Supervisory Board as a group shall be familiar with the sector in which the company operates. In addition, each member ensures he or she has sufficient time to carry out his or her duties. A maximum of two former members of the Management Board are permitted to be members of the Supervisory Board. The members of the Supervisory Board may not accept mandates for bodies of or advisory activities for significant competitors of the company.

While qualification remains the decisive criterion, the Supervisory Board strives to adequately reflect the international character, the various fields of core competences of the business model as well as the competence profile of the Supervisory Board. At the same time, the Supervisory Board pays attention to diversity, in particular as regards professional experience and expertise, internationality and adequate female representation. In order to accommodate the international character of the company, the Supervisory Board should as a rule have no fewer than two international members. The Supervisory Board strives to adequately consider women in the diversity of its composition, with the specific target that no fewer than two women should be members of the Supervisory Board.

The female representation target of 22% that was established in 2015 was met as of June 30, 2017. In accordance with Section 111 (5) AktG, the Supervisory Board has renewed its target of 22% female members on the Supervisory Board by the deadline of June 30, 2022. The Supervisory Board continues to strive to increase female representation on the Supervisory Board and agreed to intensify the search for qualified and suitable female candidates.

The single most important factor for nominating a member to the Supervisory Board is the candidate's qualifications, which is not dependent on the candidate's age. As a result, the Supervisory Board sees no benefit in introducing fixed age limits. As a rule, however, Supervisory Board members should not be older than 70 when elected.

Furthermore, no fewer than five members of the Supervisory Board should be independent, as defined in Section 5.4.2 of the German Corporate Governance Code, with no fewer than two of such independent members representing the shareholders. Candidates who are likely to be confronted with an increased level of conflicts of interest should not be proposed for election by the general meeting. For the names of the members of the Supervisory Board considered independent in fiscal year 2017, please refer to the table on page 58.

In general, a Supervisory Board member should not serve as a member for longer than twelve years. The Supervisory Board is convinced that such composition ensures an independent and efficient consultation and oversight of the Management Board.

The nomination committee of the Supervisory Board considers the above described targets regarding the composition of the Supervisory Board when it prepares the proposals of the Supervisory Board to the general meeting regarding the election of Supervisory Board members.

The composition of the Supervisory Board of ZALANDO SE in fiscal year 2017 met the composition targets it had set itself in all respects. The required expertise is represented in the Supervisory Board, the competence profile has been completed and the targets of the diversity concept are met.

Audit Committee

The audit committee prepares, among other things, the negotiations and resolutions of the Supervisory Board on the audit and ratification of the separate financial statements and the approval of the consolidated financial statements, the proposed resolution of the Management Board on the appropriation of profits, and the proposal of the Supervisory Board to the general meeting on the appointment of the auditor. In addition, the audit committee handles questions regarding accounting, the discussion of financial reports, the approval of non-audit services by the auditor, monitoring the effectiveness of the internal risk management and control systems, the internal audit system, and questions regarding compliance and monitoring of the audit. The audit committee also discusses the audit reports with the auditor as well as its findings, and provides recommendations in this respect to the Supervisory Board.

Members of the Audit Committee

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Dominik Asam (member and chairperson since May 31, 2017)

Lothar Lanz

Jørgen Madsen Lindemann (member since May 31, 2017)

Kai-Uwe Ricke (member and chairperson until May 31, 2017)

Lorenzo Grabau (member until May 31, 2017)

Konrad Schäfers

The chairperson of the audit committee, Dominik Asam, and the previous chairperson of the audit committee, Kai-Uwe Ricke, both have the requisite expertise in the area of accounting or auditing pursuant to Section 100 (5) AktG. Dominik Asam is and Kai-Uwe Ricke was an independent member of the Supervisory Board.

Remuneration Committee

The remuneration committee deals with the company's remuneration system and its refinement as well as with the amount and appropriateness of Management Board remuneration and provides recommendations as a basis for decision-making by the Supervisory Board.

Members of the Remuneration Committee

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Lorenzo Grabau (member and chairperson until May 31, 2017)

Lothar Lanz (member until May 31, 2017)

Jørgen Madsen Lindemann (member and chairperson since May 31, 2017)

Shanna Prevé (member since May 31, 2017)

Alexander Samwer

Beate Siert

Nomination Committee

The nomination committee is exclusively composed of shareholder representatives. The nomination committee prepares the proposals of the Supervisory Board to the general meeting regarding the election of Supervisory Board members, taking into account the specific targets of the Supervisory Board regarding its composition.

Members of the Nomination Committee

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Lorenzo Grabau (chairperson and member until January 5, 2017)

Lothar Lanz (chairperson and member since January 12, 2017)

Jørgen Madsen Lindemann (member since May 31, 2017)

Anders Holch Povlsen

Alexander Samwer (member until May 31, 2017)

1.4.4 Target of Female Representation in Management Levels below the Management Board

In accordance with Section 76 (4) AktG, the Management Board established a target for the representation of women in the two management levels below the Management Board for the first time in fiscal year 2015. Zalando attaches great importance to inclusion and diversity throughout the company and has always considered the representation of women in the workforce and in the management of Zalando to be an important aspect of a diverse employee structure. In order to send out a clear signal of Zalando's aim to support women in top-level management, the Management Board had set an ambitious target of increasing female representation in the first level directly below the Management Board from 0% to 15% by June 30, 2017, and to further increase female representation in the next management level to 30%. The company has not only reached the target in the first level directly below the Management Board, but has in fact even exceeded this target figure. As of June 30, 2017, the female representation in the first level below the Management Board stood at 25%. At the end of the reporting year 2017 – after the departure of one female Senior Vice President (SVP) – the female representation however fell below 25%. The company reaffirms its goal to increase the diversity within the top-level management with the representation of women being an important aspect of diversity. Thus, the target figure in the first management level below the Management Board was determined at 25% by June 30, 2022. On the second level directly below the Management Board, the representation of women stood at 21% as of June 30, 2017, i.e. on this level the ambitious target of 30% was missed. The company continues to strive to increase the female representation also in the second level below the Management Board and considers gender diversity as one relevant aspect in the hiring and promotion process when filling open positions at this level. The Management Board set the target to increase female representation in the second management level to 30% by June 30, 2022.

GRI 103-1/-2/-3 MA Diversity
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GRI 405-1

1.4.5 Management Board and Supervisory Board Shareholdings

As of the end of fiscal year 2017, the co-founders of the company and members of the Management Board Robert Gentz and David Schneider each held 1.85% of shares in the company. Management Board member Rubin Ritter held less than 1% of shares. Supervisory Board member Anders Holch Povlsen held 10.09% of shares at the end of fiscal year 2017. The other Supervisory Board members cumulatively held less than 1% of shares.

A report on the transactions conducted during fiscal year 2017 by persons discharging managerial responsibilities is published on the ZALANDO SE website in the Investor Relations section.



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1.4.6 Takeover Law Disclosures Pursuant to Sections 289a (1), 315a (1) HGB and Explanatory Report¹¹

The disclosures required according to Sections 289a (1), 315a (1) HGB are listed and explained below.

Composition of Issued Capital

With respect to the composition of the issued capital, please refer to the notes, section 3.5.7 Notes to the Consolidated Statement of Comprehensive Income and Statement of Financial Position.

Restrictions Relating to Voting Rights or the Transfer of Shares

At the end of the reporting year, ZALANDO SE had 178,965 treasury shares that do not grant rights in accordance with Section 71b AktG.

Shareholdings That Exceed 10% of the Voting Rights

At the end of fiscal year 2017, Verdere S.à.r.l. (Luxembourg) and Anders Holch Povlsen each held an indirect shareholding in ZALANDO SE that exceeded the threshold of 10% of voting rights. Information on the amount of the above-mentioned shareholding in the company can be found in section 1.5 The Zalando Share – 2017 in Review on page 73.

Statutory Regulations and Provisions of the Articles of Association Concerning the Appointment and Removal from Office of Management Board Members, and Concerning Modifications to the Articles of Association

According to Article 9 (1), Article 39 (2) and Article 46 of the SE Regulation, Sections 84 and 85 AktG and Article 7 (4) of the Articles of Association, the Supervisory Board appoints the members of the Management Board for a maximum term of five years. Reappointments are permissible. The Supervisory Board is authorized to revoke the appointment of a Management Board member for an important reason (for details, see Article 9 (1), Article 39 (2) of the SE Regulation, Section 84 AktG). According to Article 7 of the Articles of Association, the Management Board consists of one or more members. The number of members of the Management Board shall be determined by the Supervisory Board.

The general meeting passes the resolutions to amend the Articles of Association. According to Art. 20 (2) of the Articles of Association, amendments to the Articles of Association require a majority of

11) Takeover law disclosures pursuant to Sections 289 (4), 315 (4) HGB are part of the combined management report and also form part of the corporate governance report with the declaration of conformity.

two-thirds of the valid votes cast or, if at least one-half of the share capital is represented, the simple majority of the valid votes cast unless this conflicts with mandatory legal provisions.

According to Article 12 (5) of the Articles of Association, the Supervisory Board is entitled to make changes and additions to the Articles of Association that pertain to the wording only. Pursuant to Article 4 (3) and (4) of the Articles of Association, the Supervisory Board is authorized to adjust the wording of the Articles of Association to reflect the implementation of the increase of the registered share capital from authorized capital or after the term of the authorization has expired.

Authority of the Management Board to Issue Shares or Acquire Treasury Shares

The Management Board of the company is authorized to increase the registered capital of the company until October 28, 2018, with the consent of the Supervisory Board, once or several times, by up to a total of EUR 2,736,745 by issuing up to 2,736,745 new no-par value bearer shares against contributions in cash (Authorized Capital 2013). The subscription rights of the shareholders are excluded. The Authorized Capital 2013 serves the implementation of acquisition rights (option rights) resulting from the options that have been granted to or agreed with employees or managing directors of the company and its affiliated companies by shareholders of the company or by the company prior to its conversion into a stock corporation or by affiliated companies between March 2009 and September 2013 (inclusive) and shares out of the Authorized Capital 2013 may be issued only for this purpose. The Management Board is authorized to determine, with the consent of the Supervisory Board, the further scope of the shareholders' rights pertaining to the shares to be newly issued and the further conditions for the issue of new shares; this also includes the determination of the point in time when the new shares will participate in the profits, also for a previous fiscal year if legally admissible.

The Management Board is authorized to increase the registered share capital of the company until June 1, 2020, with the consent of the Supervisory Board, once or several times, by up to a total of EUR 94,694,847 by issuing up to 94,694,847 new no-par value bearer shares against contributions in cash and/or in kind (Authorized Capital 2015). The shareholders are, in principle, entitled to subscription rights. The Management Board is authorized to exclude the subscription right of the shareholders with the consent of the Supervisory Board in the cases described in the authorization. The total shares issued under the authorization with the exclusion of subscription rights must not exceed 20% of the registered share capital either at the time the authorization becomes effective or at the time it is exercised. Before the issue of shares with the exclusion of subscription rights, there shall be counted towards the aforesaid 20% limit (i) treasury shares sold with the exclusion of subscription rights, and (ii) shares to be issued to service bonds with conversion and/or option rights or obligations, insofar as the bonds were issued with the exclusion of shareholders' subscription rights on the basis of the authorization by the general meeting of June 2, 2015. The Management Board is authorized, with the consent of the Supervisory Board, to determine any further details of the capital increase, the further content of the rights arising from the shares and the conditions of the share issue.

The share capital of the company is conditionally increased by up to EUR 9,817,500 by issuing up to 9,817,500 no-par value bearer shares (Conditional Capital 2013). The Conditional Capital 2013 may be used only to fulfill the subscription rights that have been granted to the members of the Management Board of the company in connection with the Stock Option Program 2013 in accordance

with the resolution of the general meeting of December 18, 2013, as amended by the company's general meeting of June 3, 2014, and of July 11, 2014. The conditional capital increase will be implemented to the extent only that such subscription rights have been or will be issued in accordance with the Stock Option Program 2013, the holders of the subscription rights exercise their rights and the company does not deliver treasury shares to satisfy the subscription rights. The Supervisory Board is exclusively competent regarding the granting and settlement of subscription rights to the members of the Management Board of the company.

The share capital of the company is conditionally increased by up to EUR 6,732,000 by issuing up to 6,732,000 no-par value bearer shares (Conditional Capital 2014). The Conditional Capital 2014 may be used only to fulfill the subscription rights that have been granted to employees of the company as well as members of the management bodies and employees of companies affiliated with the company in the meaning of Sections: 15 et seq. AktG in connection with the Stock Option Program 2014 in accordance with the resolution of the general meeting on June 3, 2014, as amended by the company's general meeting of July 11, 2014. The conditional capital increase will only be implemented to the extent that such subscription rights have been or will be issued in accordance with the Stock Option Program 2014, the holders of the subscription rights exercise their rights and the company does not deliver treasury shares to satisfy the subscription rights.

The share capital is conditionally increased by up to EUR 73,889,248 by issuing up to 73,889,248 no-par value bearer shares (Conditional Capital 2015). The purpose of the conditional capital increase is to grant shares to the holders/creditors of convertible bonds and/or bonds with warrants or a combination of all of these instruments issued pursuant to the authorization on which a resolution was passed by the general meeting on June 2, 2015, under agenda item 10 lit. a) until June 1, 2020, by the company or any subordinate group company of the company and that grant a conversion or option right to new no-par value bearer shares of the company or provide for a conversion or option obligation or an option entitling the issuer to deliver shares to the extent that they are issued against cash contributions. The new shares are issued in each case at a conversion price or option price to be stipulated pursuant to the authorization resolution specified above. The conditional capital increase is carried out only to the extent to which use is made of conversion or option rights or conversion or option obligations are fulfilled or an option entitling the issuer to deliver shares is exercised and no other forms of fulfillment of delivery are used. The Management Board is authorized, with the consent of the Supervisory Board, to determine the further details of the implementation of conditional capital increases.

The share capital of the company is conditionally increased by up to EUR 5,098,440 against contribution in cash and in kind by issuing up to 5,098,440 new no-par value bearer shares with a pro rata share in the share capital of EUR 1.00 to fulfill subscription rights to shares of the company (Conditional Capital 2016). The Conditional Capital 2016 may be used once or several times only to fulfill the subscription rights that have been granted until May 30, 2021 – partly as a component of stock appreciation rights – in accordance with the resolution of the general meeting of May 31, 2016. The new shares shall be subscribed either against a cash payment in the amount of the lowest issue price in the meaning of Section 9 (1) AktG or against the contribution of the participants' remuneration entitlements under the stock appreciation rights granted to them, which are granted in accordance with the resolution of the general meeting of May 31, 2016. The conditional capital increase will be implemented only to the extent that subscription rights or stock appreciation rights

with subscription rights have been or will be issued in accordance with the resolution of the general meeting of May 31, 2016, the holders of subscription rights exercise their rights and the company grants no treasury shares or cash payments for the satisfaction of the subscription rights.

The new shares from the Conditional Capital 2013, the Conditional Capital 2014, the Conditional Capital 2015 and the Conditional Capital 2016 shall participate in the profits from the beginning of the fiscal year in which they are issued; notwithstanding this, the new shares shall participate in the profits from the beginning of the fiscal year preceding the fiscal year in which such new shares are created if the general meeting has not yet adopted a resolution on the appropriation of the distributable profit of the fiscal year preceding the fiscal year in which such new shares are created.

The Management Board is authorized until June 1, 2020, to acquire treasury shares for any permissible purpose totaling up to 10% of the share capital existing as of the date of the resolution or, if the amount is lower, share capital existing at the time this authorization is exercised. Shares acquired may not at any time amount to more than 10% of the total share capital when taken together with other treasury shares held by the company or allocable to the company in accordance with Section 71a et seq. AktG. In addition to this, the Management Board is authorized until June 1, 2020, to use derivatives to acquire treasury shares. All shares that are acquired using derivatives are limited to shares that pertain to at most 5% of the share capital existing as of the date of the resolution of the general meeting or, if the amount is lower, share capital existing at the time this authorization is exercised. We refer to the resolutions proposed by the Management Board and the Supervisory Board in items 7 and 8 of the company's general meeting agenda for June 2, 2015, which was published in the German Federal Gazette on April 23, 2015, with regard to details of the authorization to acquire treasury shares.

Company Compensation Agreements That Have Been Entered into with Management Board Members or Employees in the Event of a Takeover Bid

The Stock Option Program SOP 2013 allows for stock option rights held by the Management Board to be supplemented in the case of a change of control. The Supervisory Board and/or the Management Board are entitled to request the proportionate cancellation of the vested outstanding options in line with the share in the company obtained by the acquiring company as a result of the change of control in exchange for payment by the company. With respect to the stock options not yet vested at the time of a change in control, the Supervisory Board is authorized at its own discretion to grant other performance-based compensation similar in terms of value (including share appreciation rights, phantom stocks or other stock options) in exchange for the cancellation of the stock options granted within the scope of SOP 2013.

Significant Company Agreements Subject to a Change of Control Due to a Takeover Bid

The material agreements that are subject to the condition of a change of control involve the revolving credit facility and various reverse factoring agreements. In the event of a change of control, these agreements provide, as is customary for creditors, the right to terminate the agreement and accelerate repayment or, for factors, the right to terminate the agreement or renegotiate the contractual terms.

1.4.7 Remuneration Report¹²

Basic Features of the Remuneration System for Members of Zalando's Management Board

Total remuneration consists of two elements – fixed base salary and long-term incentive through option programs.

The total remuneration is appropriate to the tasks and performance of each member of the Management Board. The criteria used to determine the appropriate level of remuneration is driven by each member's responsibilities and personal contribution, as well as the company's economic situation, performance and future development. The industry context, as well as the internal remuneration structure, are also considered.

Pursuant to the resolution passed at the company's extraordinary general meeting held on July 11, 2014, information on the individual remuneration of each member of the Management Board is not disclosed in accordance with Sections 286 (5), 314 (3) Sentence 1 and 315a (1) HGB in conjunction with Section 61 of the SE Regulation.

The term of the current appointment of the members of the Management Board ends with the expiry of November 30, 2018. Thus, the Supervisory Board dealt in the reporting year 2017 with the review of the Management Board's performance, the succession planning as well as the design and introduction of the new compensation system for the Management Board members. The discussions will be finalized in the reporting year 2018.

Non-Share-Based Payments (Non-Performance-Based Remuneration)

The members of the Management Board receive non-share-based remuneration, such as salaries, non-cash payments and other benefits.

The salaries of the members of the Management Board are paid in monthly installments. The members of the Management Board as a group received annual salaries totaling EUR 0.6m in fiscal year 2017 (prior year: EUR 0.6m). In addition, the members of the Management Board were entitled to non-cash payments (such as the use of company cars) and other benefits totaling EUR 0.04m in fiscal year 2017 (prior year: EUR 0.05m). Other benefits include reimbursement of standard expenses, such as travel expenses, contributions towards health insurance, and monthly gross amounts that correspond to the employer's contributions to the statutory pension and unemployment insurance.

Share-Based Payments (Long-Term Incentives)

No new option rights were granted to the Management Board in fiscal year 2017.

The members of the Management Board participated in the option programs SOP 2011 and SOP 2013 in fiscal year 2017 (as they did in the prior year).

The SOP 2011 was granted to the Management Board in fiscal year 2011. The SOP 2011 consists of options that entitle the members of the Management Board, as a group, to acquire a total of 3,085,500 new shares in the company after a certain period of service. The exercise price is

¹²⁾ This remuneration report is part of the combined management report and also forms a component of the corporate governance report with the declaration of conformity.

EUR 5.65 per option. Each option entitles the beneficiary to acquire one share. The issuance of options under the scope of SOP 2011 is closed.

The options granted to the beneficiaries vest in tranches. The options vest if the beneficiary serves as a member of the Management Board of Zalando for the vesting period of the respective tranche. The last tranche of the SOP 2011 will vest in October 2018. Vested options are forfeited if the beneficiary leaves the group before the end of the respective vesting period. The beneficiaries have no claim to cash payment.

The number of outstanding options within the scope of SOP 2011 developed as follows in the reporting period:

Development Options SOP 2011

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	Number	Weighted average exercise price (in EUR)
Outstanding options as of Jan 1, 2016	2,730,200	5.65
Options granted during the reporting period	0	–
Options forfeited during the reporting period	0	–
Options exercised during the reporting period	187,000	5.65
Options expired during the reporting period	0	–
Outstanding options as of Dec 31, 2016	2,543,200	5.65
Options vested as of Dec 31, 2016	1,870,000	5.65
Outstanding options as of Jan 1, 2017	2,543,200	5.65
Options granted during the reporting period	0	–
Options forfeited during the reporting period	0	–
Options exercised during the reporting period	691,900*	5.65
Options expired during the reporting period	0	–
Outstanding options as of Dec 31, 2017	1,851,300	5.65
Options vested as of Dec 31, 2017	1,486,650	5.65

*) For 589,050 of the 691,900 options exercised, the issuance of the shares from authorized capital and thus the receipt by the Management Board took place only in the financial year 2018.

The options issued by the company can be exercised as of the vesting date. The beneficiaries can exercise vested options for an unlimited period. The weighted average share value on the date of exercise of an option exercised in the reporting period 2017 amounted to EUR 41.39 (prior year: EUR 30.93).

The SOP 2013 includes call options granted to the members of the Management Board in fiscal year 2013. The options entitle the holders to acquire a total of 9,817,500 shares in the company, provided that the beneficiaries have worked for the company for the period specified within a tranche, the performance conditions contained in SOP 2013 have been fulfilled, and the waiting period has elapsed. The exercise price is EUR 15.63 per option. Each option entitles the beneficiary to acquire one share. The issue of options within the scope of SOP 2013 is closed. No new options are granted.

The options granted to the members of the Management Board vest in 60 tranches over a period of five years. The condition of a tranche relating to the period of service is met if the beneficiary holds the office as a member of the Management Board of Zalando over the vesting period of the respective tranche. The performance condition stipulates that Zalando must achieve a certain level of contractually agreed revenue growth over a period of four years, starting on the grant date. If the contractual revenue target is not achieved, the options are forfeited without replacement. The waiting period commences on the date on which the options are granted. It also lasts for a period of four years. The beneficiaries can exercise vested options after the waiting period within a certain time frame over a period of five years. Within the five-year exercise period, options can be exercised within three weeks of the publication of each of the quarterly, half-year and annual financial statements.

The beneficiaries have no claim to cash payment.

The number of outstanding options within the scope of SOP 2013 developed as follows in the reporting period:

Development Options SOP 2013

→ 14

	Number	Weighted average exercise price (in EUR)
Outstanding options as of Jan 1, 2016	9,817,500	15.63
Options granted during the reporting period	0	–
Options forfeited during the reporting period	0	–
Options exercised during the reporting period	0	–
Options expired during the reporting period	0	–
Outstanding options as of Dec 31, 2016	9,817,500	15.63
Options vested as of Dec 31, 2016	5,856,840	15.63
Outstanding options as of Jan 1, 2017	9,817,500	15.63
Options granted during the reporting period	0	–
Options forfeited during the reporting period	0	–
Options exercised during the reporting period	0	–
Options expired during the reporting period	0	–
Outstanding options as of Dec 31, 2017	9,817,500	15.63
Options vested as of Dec 31, 2017	7,809,120	15.63

The options can be exercised in return for payment of the exercise price. The beneficiaries can alternatively request a reduction of the exercise price from EUR 15.63 to EUR 1.00 for options already vested but not yet exercised. In this case, the number of options already vested but not yet exercised is reduced, leaving the beneficiary neither better nor worse off economically.

The weighted average of the remaining contractual term of the outstanding or exercisable options (meaning the period until the options' expiry date) is four years and 354 days as of the reporting date (prior year: five years and 354 days).

Other Notes

For the duration of their employment, any professional activities undertaken by members of the Management Board outside of the group require the prior written consent of the Supervisory Board. Moreover, every service contract contains a non-competition clause that prohibits members of the Management Board from working for companies in direct or indirect competition with the company or that are affiliated with competitors of this kind. Notwithstanding this, each member of the Management Board is free to invest in a competitor, as long as the stake does not exceed 2% of the voting rights of the company. The non-competition clause for the members of the Management Board also applies to business segments in which affiliates operate.

The conditions stipulated in the service contracts between the members of the Management Board and the company entered into force when the change in the company's legal form to a stock corporation was entered in the commercial register. These contracts are valid until November 30, 2018. The service contracts can be terminated only for good cause during this period. When a member of the Management Board is dismissed, the service contract does not end automatically.

Pursuant to the respective provisions of the AktG, the members of the Management Board are also covered by insurance policies for directors and officers (D&O insurance) with adequate coverage and deductibles amounting to 10% of the loss, but no more than 150% of the annual fixed salary. The D&O insurance policies cover financial losses caused by breaches of duty on the part of the members of the Management Board in the performance of their tasks.

Apart from the service contracts, there are no service or employment contracts between the members of the Management Board and their related parties and the company or their subsidiaries.

Total Compensation

The members of the Management Board were granted total remuneration of EUR 0.6m in fiscal year 2017 (prior year: EUR 0.6m).

Benefits

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IN EUR	Management Board members			2016
	2017	2017 (min)	2017 (max)	
Fixed compensation	583,065	583,065	583,065	600,000
Fringe benefits	40,050	40,050	40,050	48,023
Total	623,115	623,115	623,115	648,023
One-year variable compensation	0	0	0	0
Multi-year variable compensation	0	0	0	0
Total	623,115	623,115	623,115	648,023
Pension expense	0	0	0	0
Total	623,115	623,115	623,115	648,023

The following table shows allocations for fiscal 2017 of fixed compensation, fringe benefits, one-year variable compensation and multi-year variable compensation – by reference year – as well as the expense of pension benefits. This table includes the actual figure for multi-year variable compensation granted in previous years and allocated in fiscal year 2017.

Allocation

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	Management Board members	
IN EUR	2017	2016
Fixed compensation	583,065	600,000
Fringe benefits	40,050	48,023
Total	623,115	648,023
One-year variable compensation	0	0
Multi-year variable compensation	3,886,702	7,924,554
SOP 2011*	3,886,702	7,924,554
SOP 2013	0	0
Total	4,509,817	8,572,577
Service cost	0	0
Total	4,509,817	8,572,577

*) Exercise of options

Remuneration of Supervisory Board Members

The remuneration of Supervisory Board members is governed by Article 15 of the Articles of Association and comprises only fixed annual payments. The amount is based on the responsibilities and scope of the activities carried out by the respective Supervisory Board member as well as the company's economic situation.

According to the Articles of Association, every member of the Supervisory Board receives annual fixed remuneration of EUR 65,000. The chairperson of the Supervisory Board receives a fixed remuneration of EUR 150,000 and the deputy chairman of the Supervisory Board receives a fixed remuneration of EUR 90,000. Supervisory Board members acting as members of the audit committee receive an additional fixed remuneration of EUR 15,000. The chairperson of the audit committee receives an additional remuneration of EUR 35,000. In addition to the remuneration mentioned above, the company reimburses the members of the Supervisory Board for reasonable out-of-pocket expenses that arise when performing their duties as Supervisory Board members as well as the value-added tax on their remuneration and out-of-pocket expenses. Supervisory Board members who hold office as members or chairpersons for only part of a fiscal year receive a proportionate share of remuneration. The remuneration of the Supervisory Board members falls due after the annual general meeting which accepts the consolidated financial statements for the fiscal year for which the remuneration is paid or decides on their approval.

The members of the Supervisory Board are covered by a D&O insurance policy held by the company.

Remuneration for fiscal year 2017 breaks down as follows:

Supervisory Board Remuneration

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IN EUR	2017	2016
Cristina Stenbeck (until May 31, 2016)	0	41,370
Lorenzo Grabau (until May 31, 2017)	43,269	75,000
Lothar Lanz (since February 10, 2014)	165,000	100,000
Kai-Uwe Ricke (until May 31, 2017)	41,209	89,658
Alexander Samwer (since December 9, 2013)	65,000	50,000
Anders Holch Povlsen (since December 9, 2013)	79,698	50,000
Konrad Schäfers (since June 2, 2015)	80,000	50,000
Dylan Ross (since June 2, 2015)	65,000	50,000
Beate Siert (since June 2, 2015)	65,000	50,000
Jørgen Madsen Lindemann (since May 31, 2016)	73,819	29,315
Shanna Prevé (since May 31, 2017)	38,214	0
Dominik Asam (since May 31, 2017)	58,791	0
Total	775,000	585,343