

01.5 CORPORATE GOVERNANCE REPORT

Corporate governance, as practiced 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 Section 289a HGB (German Commercial Code), as the content of the two is closely linked. In accordance with Section 289a HGB, the statement on corporate governance forms part of the management report.¹³

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01.5.1 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 November 2016. In December 2016, the Management Board and Supervisory Board updated the declaration of conformity pursuant to Section 161 AktG as set out below. The declaration of conformity of November 2016, as well as the update of December 2016, are made available on the company's website.


zln.do/en-conformity

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 November 2016 and until December 7, 2016, acted in conformity with the recommendations of the Government Commission German Corporate Governance Code published by the Federal Ministry of Justice and Consumer Protection on June 12, 2015 in the official section of the Federal Gazette (Bundesanzeiger) in its version of May 5, 2015 (hereinafter the "Code") with the deviations stated and explained therein and – after the departure of one member of the Supervisory Board of ZALANDO SE from his office as CEO of a listed company – acted since December 7, 2016 and will in the future act in conformity 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.

¹³⁾ The statements on corporate governance in accordance with Section 289a HGB are unaudited part of the combined management report.

- **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 only taken into account 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 which 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 an 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. Against this background, the Supervisory Board does not intend to adjust the agreements concluded with the Management Board.

- **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 a resolution was passed at the general meeting of ZALANDO SE on July 11, 2014 in accordance with Sections 286 (5), 314 (3) Sentence 1, 315a (1) HGB (German Commercial Code) in connection with Article 61 of the SE Regulation that the compensation of the mem-

bers 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.

01.5.2 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.

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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 Section Corporate Responsibility on page 20.



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Corporate Responsibility
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An accounting-related internal control system 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 department to detect, manage, and monitor risks and opportunities at an early stage. By continuously refining the instruments employed in the risk management system, this department can ensure that risks and opportunities are recorded and managed using a uniform approach throughout the company. Potential compliance risks are also considered. All employees of Zalando are required to be aware of risks inherent in their work and prevent risks that could jeopardize the company’s ability to continue as a going concern. The compliance management system institutes guidelines and offers advisory services and training to employees to prevent in particular compliance infringements. Obligatory basic compliance trainings for employees as well as special training measures on specific topics such as anti-trust law, data protection, and insider trading, reinforce awareness of the significant regulatory framework and internal rules and regulations and provide information regarding the established processes within the compliance management system.



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Various communication channels have been installed to facilitate the reporting of presumed compliance infringements – on an anonymous basis if preferred. The Compliance Panel has been set up to clarify and assess potential compliance infringements. In fulfilling its duties, the Governance, Risk & Compliance 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.

DMA Anti-Corruption

As a benchmark to measure the maturity of its compliance management system, ZALANDO SE decided to instruct external auditors to conduct an external audit according to the IDW PS 980 Assurance Standard. The external auditors came to the conclusion that ZALANDO SE's compliance management system met (as of August 12, 2016) the requirements of the IDW PS980 Assurance Standard with regard to anti-corruption and antitrust.

01.5.3 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 aligned 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 business.

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 communicates this to 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 require Supervisory Board approval.

The Management Board currently does not have any female members. The term of office of the Management Board members runs until the end of November 2018, which thus exceeds the dead-

line for establishing a female representation target (June 30, 2017) pursuant to Section 111 (5) AktG. The Supervisory Board has therefore passed a resolution to establish a female representation target of 0% to be achieved by June 30, 2017 in accordance with Section 111 (5) AktG.

However, 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. With regard to the Management Board's composition, while qualification shall still be the decisive criterion, the Supervisory Board strives to adequately consider the international character and the various fields of core competences of the business model, while at the same time, paying attention to diversity, and in particular, to variety as regards professional experience and expertise and aiming for an appropriate consideration of women. While performance and qualification rather than age shall be the decisive factors when selecting Management Board members, such members should not be older than 65 when elected. Together with the Management Board, the Supervisory Board will implement long-term succession planning which considers the aforementioned principles.

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.



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Report of the Supervisory
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MEMBERS OF THE SUPERVISORY BOARD IN FISCAL YEAR 2016

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Lorenzo Grabau (deputy chairperson)

Lothar Lanz (chairperson since May 31, 2016)

Jørgen Madsen Lindemann (member since May 31, 2016)

Anders Holch Povlsen

Kai-Uwe Ricke

Dylan Ross

Alexander Samwer

Konrad Schäfers

Beate Siert

Cristina Stenbeck (member and chairperson until May 31, 2016)

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. 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.

With regard to its composition, while qualification remains the decisive criterion, the Supervisory Board strives to adequately reflect the international character and the various fields of core competences of the business model while considering diversity, in particular with regard to professional experience and expertise. 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 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. 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.

In accordance with Section 111 (5) AktG, the company has established a target of 22% female members on the Supervisory Board. The company anticipates fulfilling this target by the deadline of June 30, 2017. In fiscal year 2016, the company fulfilled the target until the resignation of Cristina Stenbeck with the conclusion of the annual general meeting on May 31, 2016 and the succession of Jørgen Madsen Lindemann for the remaining term. 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.

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 annual general meeting. 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. Except for the targeted female representation, the composition of the Supervisory Board of ZALANDO SE in fiscal year 2016 met the targets it had set itself in all respects.

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 sufficient content.

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.

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 annual 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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Lothar Lanz (chairperson until May 31, 2016 and thereafter member)

Kai-Uwe Ricke (chairperson since May 31, 2016 and previously deputy chairperson)

Lorenzo Grabau

Konrad Schäfers

The chairperson of the audit committee, Kai-Uwe Ricke, and the previous chairperson of the audit committee, Lothar Lanz, both have the requisite expertise in the area of accounting or auditing pursuant to Section 100 (5) AktG. Kai-Uwe Ricke and Lothar Lanz are also independent members 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 on a decision-making basis for the Supervisory Board.

MEMBERS OF THE REMUNERATION COMMITTEE

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Lorenzo Grabau (chairperson)

Lothar Lanz (member since May 31, 2016)

Alexander Samwer

Beate Siert

Cristina Stenbeck (member until May 31, 2016)

NOMINATION COMMITTEE

The nomination committee comprises exclusively shareholder representatives. The nomination committee prepares the proposals of the Supervisory Board to the annual general meeting regarding the election of Supervisory Board members. In the process, it considers the specific targets of the Supervisory Board regarding its composition.

MEMBERS OF THE NOMINATION COMMITTEE

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Lorenzo Grabau (chairperson and member from May 31, 2016 until January 5, 2017)

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

Anders Holch Povlsen

Alexander Samwer

Cristina Stenbeck (chairperson and member until May 31, 2016)

01.5.4 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 has attached great importance to diversity and inclusion 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 the reporting year, women accounted for 47% of the workforce, while women occupied 33% of management positions. In order to send out a clear signal of Zalando's aim to support women in top-level management, the Management Board has set an ambitious target of increasing female representation in the first level directly below the Management Board to 15% by June 30, 2017 and to further increase female representation in the next management level to 30%. More information on the company's targets and efforts to build an inclusive culture and to promote diversity is provided in the Section Inclusion & Diversity on page 27.

01.5.5 MANAGEMENT BOARD AND SUPERVISORY BOARD SHAREHOLDINGS

As of the end of fiscal year 2016, 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. The Management Board member Rubin Ritter held less than 1% of shares. The Supervisory Board member Anders Holch Povlsen held 10.04% of shares at the end of fiscal year 2016. The other Supervisory Board members cumulatively held less than 1% of shares.

A report on the transactions conducted during the fiscal year 2016 by persons discharging managerial responsibilities is published on the ZALANDO SE website in the Investor Relations section.



zln.do/en-IR

01.5.6 TAKEOVER LAW DISCLOSURES PURSUANT TO SECTIONS 289 (4), 315 (4) HGB AND EXPLANATORY REPORT¹⁴

The disclosures required according to Sections 289 (4), 315 (4) 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 03.5.7 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 45,659 treasury shares that do not grant rights in accordance with Section 71b AktG. Under Section 136 AktG, the voting right of the shares affected is excluded by law.

SHAREHOLDINGS THAT EXCEED 10% OF VOTING RIGHTS

At the end of fiscal year 2016, 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 01.6.1 The Zalando Share – 2016 in Review on page 67.

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.

¹⁴⁾ 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.

The general meeting passes the resolutions to amend the Articles of Association. Unless this conflicts with mandatory legal provisions, according to Art. 20 (2) of the Articles of Association, amendments to the Articles of Association require a majority of 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.

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 repeatedly by up to a total of EUR 2,865,775 by the issuance of up to 2,865,775 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 of the issuance of the new shares; this shall also include 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 repeatedly by up to a total of EUR 94,694,847 by the issuance of 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) own 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 annual 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 issuance of up to 9,817,500 new bearer no-par value shares (Conditional Capital 2013). The Conditional Capital 2013 may only be used to fulfill the subscription rights which 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 only be implemented to the extent 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 shall be 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 issuance of up to 6,732,000 new bearer no-par value shares (Conditional Capital 2014). The Conditional Capital 2014 may only be used to fulfill the subscription rights which 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 issuance of 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 annual 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 the issuance of up to 5,098,440 new no-par value shares with a pro-rata share in the share capital of EUR 1.00 to fulfill subscription rights for shares of the company (Conditional Capital 2016). The Conditional Capital 2016 may only be used once or several times to fulfill the subscription rights which have been granted until May 30, 2021 – partly as a component of stock appreciation rights – in accordance with the resolution of the annual 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 annual 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 annual general meeting of May 31, 2016, the holders of subscription rights exercise their rights and the company grants no own shares or cash payments for the satisfaction of the subscription rights.

The new shares from Conditional Capital 2013, Conditional Capital 2014, Conditional Capital 2015 and 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 annual 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 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 acquire treasury shares through the use of derivatives. 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 annual general meeting or, if the amount is lower, share capital existing at the time this authorization is exercised. We refer to resolutions proposed by the Management Board and Supervisory Board in Items 7 and 8 of the company's annual 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.

01.5.7 REMUNERATION REPORT¹⁵

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.

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 2016 (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 0.05m in fiscal year 2016 (prior year: EUR 0.06m). Other benefits include reimbursement of standard expenses, such as travel expenses, contributions towards health insurance, and monthly gross amounts which 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 2016.

The members of the Management Board participated in the option programs SOP 2011 and SOP 2013 in the fiscal year 2016 (as they did in the prior year).

¹⁵ 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.

The Call Option Programs (COPs) were granted to one member of the Management Board, the members of top management, and other selected managers of the group. In fiscal year 2015, all options of the member of the Management Board had been exercised.

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 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 2011

→ 17

	Number	Weighted average exercise price (in EUR)
Outstanding options as of Jan 1, 2015	3,085,500	5.65
Options granted during the reporting period	0	–
Options forfeited during the reporting period	0	–
Options exercised during the reporting period	355,300	5.65
Options expired during the reporting period	0	–
Outstanding options as of Dec 31, 2015	2,730,200	5.65
Options vested as of Dec 31, 2015	1,720,400	5.65
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

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 2016 amounted to EUR 30.93 (prior year: EUR 26.34).

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 2013

→ 18

	Number	Weighted average exercise price (in EUR)
Outstanding options as of Jan 1, 2015	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, 2015	9,817,500	15.63
Options vested as of Dec 31, 2015	3,904,560	15.63
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	–

→ 19

	Number	Weighted average exercise price (in EUR)
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

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 five years and 354 days as of the reporting date (prior year: six 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, which 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 only be terminated 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 2016 (prior year: EUR 0.7m).

BENEFITS

→ 20

Management Board members				
IN EUR	2016	2016 (min)	2016 (max)	2015
Fixed compensation	600,000	600,000	600,000	600,000
Fringe benefits	48,023	48,023	48,023	56,156
Total	648,023	648,023	648,023	656,156
One-year variable compensation	0	0	0	0
Multi-year variable compensation	0	0	0	0
Total	648,023	648,023	648,023	656,156
Pension expense	0	0	0	0
Total	648,023	648,023	648,023	656,156

The following table shows allocations for fiscal 2016 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 multiyear variable compensation granted in previous years and allocated in fiscal 2016.

ALLOCATION

→ 21

Management Board members		
IN EUR	2016	2015
Fixed compensation	600,000	600,000
Fringe benefits	48,023	56,156
Total	648,023	656,156
One-year variable compensation	0	0
Multi-year variable compensation	7,924.554	6,758,180
SOP 2011*	7,924.554	4,928,852
COPs*	0	1,829,328
SOP 2013	0	0
Total	8,572.577	7,414,336
Service cost	0	0
Total	8,572.577	7,414,336

*) 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 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 an annual fixed remuneration of EUR 50,000. The chairperson of the Supervisory Board and the chairperson of the audit committee receive twice this amount. The deputy chairperson of the Supervisory Board and the deputy chairperson of the audit committee receive one and a half times of EUR 50,000. 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 2016 breaks down as follows:

SUPERVISORY BOARD REMUNERATION

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IN EUR	2016	2015
Cristina Stenbeck (until May 31, 2016)	41,370	100,000
Lorenzo Grabau	75,000	75,000
Lothar Lanz (since February 10, 2014)	100,000	100,000
Kai-Uwe Rieke (since June 3, 2014)	89,658	75,000
Alexander Samwer	50,000	50,000
Anders Holch Povlsen	50,000	50,000
Benjamin Krümel (until June 2, 2015)	–	20,959
Dr. Christoph Stark (until June 2, 2015)	–	20,959
Christine de Wendel (until June 2, 2015)	–	20,959
Konrad Schäfers (since June 2, 2015)	50,000	29,178
Dylan Ross (since June 2, 2015)	50,000	29,178
Beate Siert (since June 2, 2015)	50,000	29,178
Jørgen Madsen Lindemann (since May 31, 2016)	29,315	–
Total	585,342	600,411