

# Company\_

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Rubin Ritter

Robert Gentz

David Schneider

## Dear Shareholders, Dear Friends,

Zalando keeps the pace high. Today we have built a business that reaches more than 23 million active customers. A business that provides jobs for more than 15,000 people. A business that has changed the fashion industry. We are incredibly proud of and thankful for what our team has achieved.

At the very core of our thinking is our customer. We offer the broadest assortment with almost unlimited choice, a high degree of fresh, in-season stock and the best possible experience along every single step of the way. We have introduced innovative delivery and return options and launched our fashion service, Zalando Plus.

For business partners, we kicked off Zalando Fulfillment Solutions, allowing them to leverage our logistics expertise and network, improving customer satisfaction and scaling their business internationally. Opening our infrastructure and expertise to third parties – and with this to a new set of customers – is one of the key ingredients of our platform strategy.

But on the brink of our 10th anniversary in the fall of 2018, we don't look back – but think about tomorrow.

Our purpose, to “Reimage fashion for the good of all,” guides us and our team every day to bring our strategy to life. And we know that success is closely linked to building the best possible products and services for customers and business partners alike. Zalando will continue to move fast.

We believe the next leap is right ahead of us and encapsulates the personalization of experiences, enabling each customer to see their personal Zalando shop. It is a theme that will increasingly be part of our journey and we have dedicated this annual report "Your Zalando X" to underline our push towards more personalized experiences.

Over the past year we have paved the way for this next step, continuing our profitable growth with investments that focus on our customers, business partners and on building the underlying technology and logistics infrastructure. But what does the future hold for Zalando? In one word: growth.

We have chosen this path very early, and even today, at a much larger scale, we are certain it is the right way for us to maximize long-term value. The fashion industry is ripe with opportunities and we are willing to seize these to drive our business further.

We have our eyes firmly set on our goals: growing annually by 20–25% for the coming years, to double our business by 2020. We are convinced that further investments are necessary to expand our fashion ecosystem and increase the value we generate for all players connected to our platform. At the same time, we acknowledge that this increasingly depends on a policy framework that enables digital European companies to thrive, and we will play an active role in this debate.

Creating value for everyone involved also includes taking responsibility for the people and environment along our value chain. To live up to this responsibility, we took our sustainability strategy an important step forward: we defined impact visions and targets in our four pillars – people, fashion, environment and society. Using our unique mix of strengths in tech, fashion and operations we want to create sustainable business success and are determined to finding our role in contributing to a more transparent and sustainable fashion industry.

Our success as a company is deeply rooted in the excellence and drive of our entire team that works incredibly hard to move Zalando forward each day – thank you.

Berlin, February 26, 2018

Robert Gentz

David Schneider

Rubin Ritter

WHAT'S NEXT?\_

Stay Tuned: Our New Video Series Presents the Latest Events and Developments at Zalando.  
[zln.do/en-next](https://zln.do/en-next)

## 1.2 Corporate Responsibility

### 1.2.1 do.THINK Ahead

- Zalando's sustainability strategy is a key driver for our future business success
- This year we report transparently about past actions, but furthermore added for the first time strategic targets in people, fashion, environment and society
- With our do.STRATEGY we want to make a systemic contribution towards more sustainability in our industry – together with our customers, partners and employees

#### Letter from Rubin Ritter

"At Zalando, we work hard to find better ways to bring people and fashion together. At the same time, we also see great potential for technology to increase transparency in the fashion value chain to ultimately contribute to solving the complex social and environmental challenges that our industry is facing. As a start, we had to do our own homework in order to get the basics right. In 2017, we took the next step in our sustainability strategy and identified areas in which we will try to make a systemic contribution that goes beyond Zalando. We believe that our contribution is most effective if we combine our strengths in technology, fashion, and logistics and actively engage our customers, partners and employees. Our sustainability strategy not only contributes to changing the industry, but is also a key element for our future business success.

GRI 102-14

Over the past year we have made decisive progress in developing our sustainability strategy. We continue to do our homework in all areas. However, we feel that we have reached a point where we can go one step further and have defined additional strategic targets in four key areas:

- Employees: we want to provide a workplace for the future and impact the future of work. To get there, an innovative concept for personal and professional development is of paramount importance to us and our employees. Therefore, we invested further in our performance and growth culture to enable employees to continuously grow personally and professionally.
- Fashion: we want to contribute to a more sustainable fashion industry. It is our ambition to become a leading online destination for sustainable fashion. In 2017, we focused on convenient and transparent ways for customers to navigate through our sustainable fashion selection. Our private labels further improved the social and environmental footprint of their products and teamed up with new partners and experts, e.g. in the Sustainable Apparel Coalition.
- Environment: we want to decouple our ecological footprint from our economic growth. To this end, we set targets in two focus areas: climate protection and sustainable packaging. We developed our first climate protection strategy and switched to 100% green energy in Germany, starting January 2018.
- Corporate citizenship: we want to find a suitable way for us to contribute to solving challenges we are facing as a society. We were proud to receive the German CSR<sup>1</sup> award 2017 for initiating cross-sectoral measures for refugee integration. Now we want to expand our efforts and intend to strategically invest 1% of our EBT in solutions for societal impact.


[zln.do/en-workspace](https://zln.do/en-workspace)

[zln.do/zLabels](https://zln.do/zLabels)

[zln.do/en-neighborhood](https://zln.do/en-neighborhood)

At Zalando, we constantly learn and iterate. That is why we invite all stakeholders to give us feedback on our approach and the new visions and targets."

1) CSR stands for Corporate Social Responsibility.

## About This Chapter

- In 2016, we reported for the first time in line with the G4-Guidelines of the Global Reporting Initiative (GRI). We continue using GRI in our report 2017
- This report has been prepared in accordance with the GRI Standards: Core option
- Readers will find references to the GRI Standards in the sidebar, while the full GRI Index can be found on page 228

GRI 102-51  
GRI 102-52  
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GRI 102-55

## Our do.STRATEGY

Reimagining the fashion industry and anchoring sustainability in our business model are exciting challenges for us. We are in the middle of a learning process and are approaching this task step by step. We started with the question of which sustainability issues are key for us and our stakeholders.<sup>2</sup> In the course of our initial materiality analysis, we defined 16 topics in five areas: employees, fashion, environment, society, and data protection.

GRI 102-46  
GRI 102-47



[zln.do/en-do-strategy](https://zln.do/en-do-strategy)

Our first major task consisted in creating transparency for ourselves about where we stand with regard to the relevant topics, how we can lay important foundations, and what paths we want to pursue. This groundwork will remain an essential element of our corporate responsibility (CR) activities in the future. As we are still a very young company, and one that is strongly growing, this has been and still is a challenge.





Throughout the whole company we have an action bias. We want to do more and talk less. This is also how we approach sustainability and therefore we called our CR strategy the do.STRATEGY. We used 2017 to define our ambitions for our systemic contributions within and outside of the company for four of our do.areas. The visions for our four do.areas, do.GROW – employees, do.KNOW – fashion, do.PROTECT – environment and do.CONNECT – society, all feed into our company purpose to “Reimagine fashion for the good of all.” With the changing regulatory environment in data protection we decided to continue working on the foundation before talking about impact visions. Therefore, we continue to report this topic in the governance chapter of this annual report.



Further Information  
Corporate Governance p. 52

## Our do.STRATEGY

→ 01

Purpose	do.areas	Impact visions
Reimagine fashion for the good of all	 <b>do.GROW</b>	Provide a workplace for the future and impact the future of work.
	 <b>do.KNOW</b>	Contribute to a more sustainable fashion industry.
	 <b>do.PROTECT</b>	Decouple our environmental footprint from our economic growth.
	 <b>do.CONNECT</b>	Reimagine how corporates contribute to societal challenges.

<sup>2</sup>) More information on how we identified our key topics can be found in the 2016 annual report on p. 22.

Each vision is broken down into strategic outcomes and specific targets that we want to achieve between 2018 and 2020. At the beginning of each chapter, we summarize the corresponding outcomes and targets that we will work on in order to get closer to our systemic impact visions.

### Our Non-Financial Report 2017

Our Corporate Responsibility chapter includes our combined non-financial report for ZALANDO SE and the Zalando group in accordance with Section 289b (1) and (3) and Section 315b (1) and (3) HGB (German Commercial Code). Relevant information of the non-financial report can be identified by the indent of the paragraph and the black line next to the text. All information including relevant key performance indicators (KPIs) are provided jointly for ZALANDO SE and the Zalando group, as in our CR strategy and the related activities we do not distinguish between Zalando group and ZALANDO SE, and definitions and data collection processes do not allow for a separate presentation of KPIs for ZALANDO SE. Due to the different approach of the GRI Standards and the German implementation of the CSR Directive on Non-Financial Reporting (CSR-RUG) regarding materiality requirements, we do not apply any frameworks for our non-financial report 2017.

The information on our business model can be found in section 2.1.1 Business Model of our Combined Management Report. The definition of material topics for our non-financial report is based on the materiality analysis we conducted in 2014 and 2015. The 16 topics that we identified were analyzed according to business relevance and impact – positive as well as negative – of our business model on the corresponding topics. As a result we identified five topics to be material according to the CSR-RUG. The topics are: working conditions in Zalando Logistics, human rights in our supply chain, climate protection, community engagement and anti-corruption. Relevant information on the first four topics can be found in this CR chapter, while information on anti-corruption is provided in section 1.4.2 Corporate Governance in the Corporate Governance Report.

Our integrated risk and compliance function called Governance, Risk and Compliance (GRC) monitors risks that might impact our business performance in bi-annual risk workshops. The risks also include social and environmental risks and the results of the net risks with a high probability and high impact are summarized in section 2.4.4 in the risk and opportunity report. As a preparation for our non-financial report, the CR and GRC functions jointly analyzed these risks as well as potential further risks that emanate from our business, our business relationships, our products and services on the five material topics identified. As a result there are currently no net risks assessed with a high probability and high impact. The reason for this conclusion is that potential negative impacts are managed by the corresponding teams with strong measures and due diligence processes in place.



Further Information  
Business Model p. 79



Further Information  
Risk and Opportunity Report  
p. 107

GRI 102-11

### How We Manage Sustainability

The responsibilities and processes in the area of sustainability at Zalando are clearly regulated. Strategic responsibility for CR within Zalando lies with the Management Board, supported by the General Counsel. The CR Team reports to the General Counsel and collaborates closely with decentralized counterparts throughout Zalando to implement sustainability-related initiatives. Furthermore, the team drives the implementation of the sustainability strategy, and identifies potential for optimization. At the same time, many teams and employees as proactive experts in their respective fields initiate measures that shape our business activity in a sustainable manner.

GRI 102-18

## How We Engage Our Stakeholders

To drive sustainability in fashion and online retail, we actively engage our stakeholders and rely on the dialogue with our partners. We want to learn about their expectations and ideas and involve them in our commitment as closely, but also as flexibly as possible. Which stakeholders we exchange ideas with depends on their expertise and relevance for Zalando as well as their influence. This agile interaction allows us to respond to specific situations without having to define formal processes or formats for stakeholder engagement. This is part of our corporate culture and has proven its worth in practice.

GRI 102-40  
GRI 102-42  
GRI 102-43  
GRI 102-44

The focus of our commitment in 2017 was primarily multi-stakeholder initiatives that advocated, at an international level, more sustainability in the fashion industry's supply chain. While we are more proactive in pursuing topics with high priority, we are generally open to anyone who wants to get in contact and engage in exchanges with us.

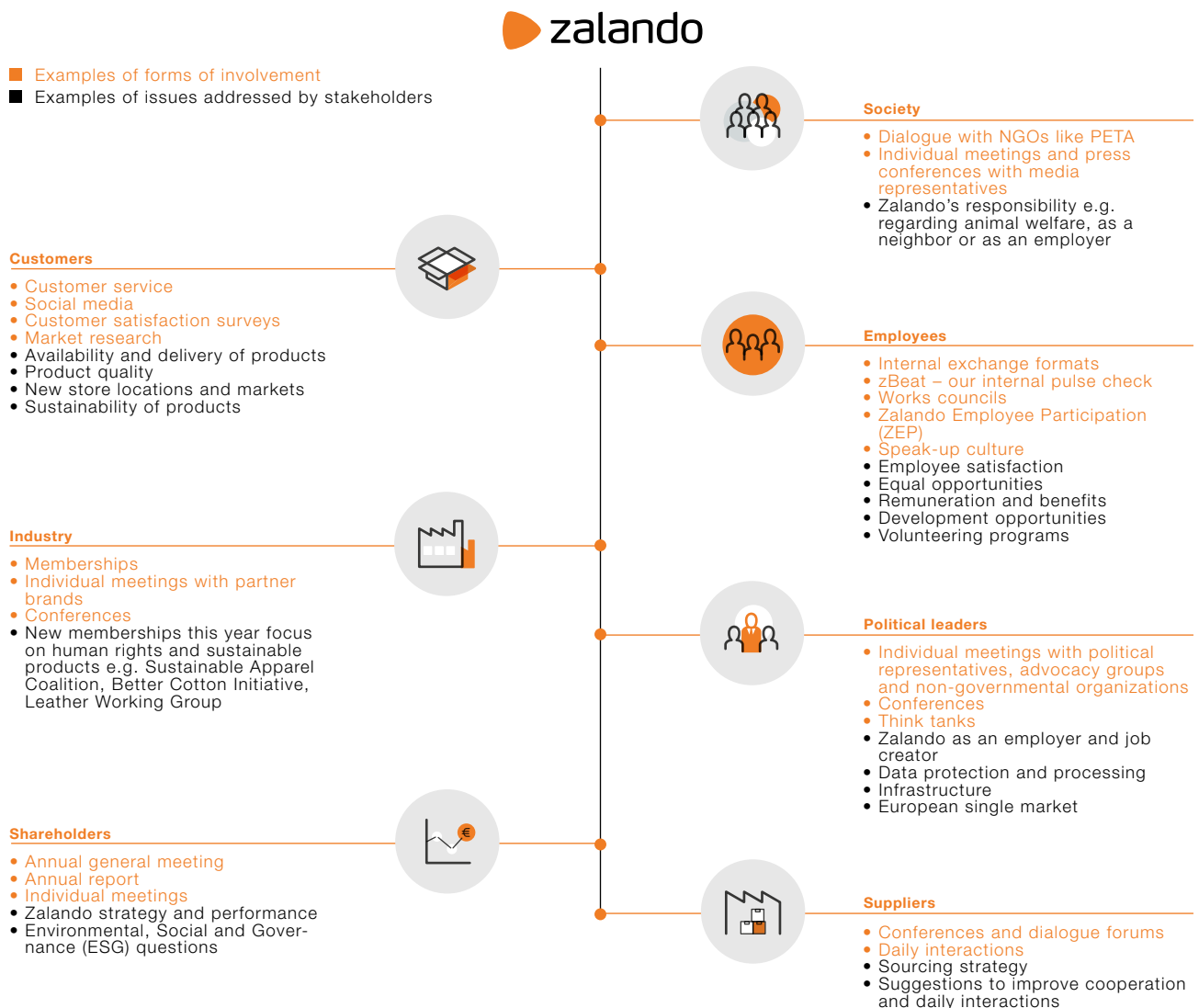
GRI 102-12  
GRI 102-13



[zln.do/en-CR-Contact](https://zln.do/en-CR-Contact)

## Stakeholder Engagement

→ 02






## 1.2.2 do.GROW

do.GROW

→ 03

Impact vision	Aspired outcome	Targets	Timing
<b>Provide a workplace for the future and impact the future of work</b> 	<b>Zalando has built a state of the art development and growth culture</b>	Enable continuous growth and development for each employee by building a real-time feedback and performance culture.	2020
		Help employees to kickstart their leadership career and provide comprehensive support to first time leaders.	2019
	<b>Being a magnet: Zalando has continued its successful growth story and established an attractive and innovative work environment</b>	Provide fair working conditions and continuously improve standards in all fulfillment centers independent of location, start-date or size of fulfillment center.	2020
		Successfully reduce attrition rate by 30% compared to 2017.	2020
		Increase representation of women in leadership positions to 25% on first and 30% on second level below management board.	2022
		Create an attractive and healthy work environment that fosters collaboration and entrepreneurial spirit.	2019

**This Is Zalando – Open and Ambitious**

Zalando unites talents from more than 100 countries. With great passion and a strong business sense, our constantly growing team has created Europe's leading online fashion platform in just a few years. In this dynamic environment, our more than 15,000 employees transform challenges into opportunities every day. Our employees continually develop new services and products in order to reimagine fashion – exceeding our customers' expectations. We want to create a work atmosphere in which employees are fulfilled and can leave their personal mark. To this end, we want to create an environment that fosters collaboration and entrepreneurial spirit. This means providing access to all relevant information and, at the same time, the freedom to impact Zalando's success story with own ideas and passions. This environment offers employees great opportunities for development. We support this personal and professional growth by building a strong feedback culture that enables development and learning opportunities on a daily basis.

As a company, we value diversity and focus on creating an open and honest atmosphere in which each individual feels encouraged to actively put forward opinions and suggestions – irrespective of tenure, age, or position in the company. We also recognize our responsibility as an employer to protect the health of all Zalandos and to provide a work environment that caters to the current and future needs of our employees' work-life balance. Attracting talent is an essential factor in the success of our growth strategy. That is why we want to design an attractive and innovative work environment together with our Zalandos.

## Zalando in Numbers\*

→ 04

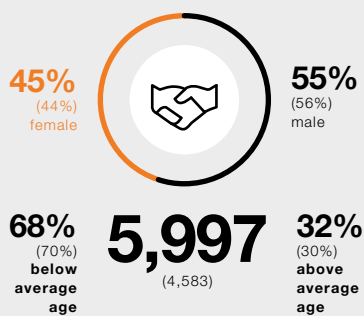
Zalando  
keeps  
growingGRI 102-7  
GRI 102-8  
GRI 401-1

Total number  
employee exits  
**3,443**  
turnover rate: **25%**  
female: **43%**  
male: **57%**  
above average age: **29%**  
below average age: **72%**



Total number  
employee exits  
**2,670**  
turnover rate: **25%**  
female: **44%**  
male: **56%**  
above average age: **30%**  
below average age: **70%**

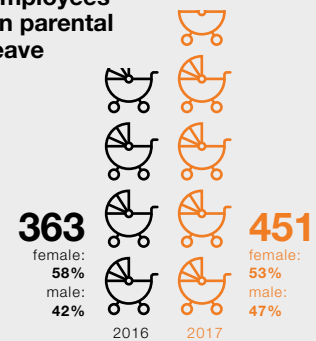
## New hires



Target to reduce attri-  
tion by 30% until 2020  
compared to 2017

**-30%**

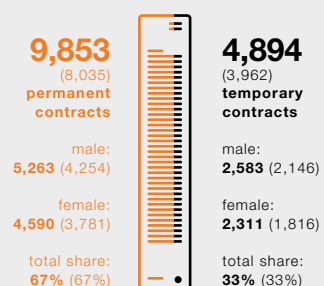
## Average age

Employees  
on parental  
leave

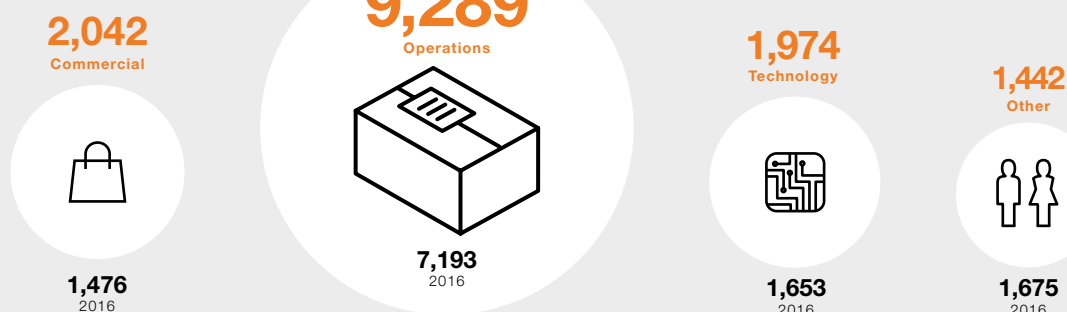
## Employment types



## Employment contracts



## Employees by classification



\*) The figures from the previous fiscal year are shown in parentheses. All numbers – except the total number of employees – do not include Anatwine Ltd., Ifansho Portugal Unipessoal Lda., KICKZ Never Not Ballin' GmbH, zLabels Trading Ltd., zLabels Trading Southern Europe S.L.U.

## Prospects for Everyone

Zalando is constantly growing and we want our employees to personally and professionally grow with us. Our philosophy is that development should not be limited to current positions within Zalando. We want to prepare our employees for the jobs of the future and impact the future of work.

GRI 103-1/-2/-3 MA  
Training and Education  
GRI 404-2

### Turning Feedback into Development

We believe that the future of work will demand an essential characteristic from people: the ability to learn and continuously develop. We want to prepare Zalandos for this, and therefore we fundamentally changed the way we develop employees in 2017. The aim of this change is to support employees in the dynamic Zalando environment so that they can use the experiences they gain and the challenges they face every day to stimulate a continuous learning process. The new development approach is summarized in a company-wide program called ZONAR and harnesses the power of appreciative and constructive multi-sourced feedback and self-reflection.



[zln.do/en-workspace](https://zln.do/en-workspace)

With ZONAR we want to ignite a feedback culture among Zalandos and kicked-off the process with an extensive set of feedback trainings. Still, we are well aware that giving constructive feedback has to be constantly practiced. In 2017, eligible Zalandos shared and received almost 54,000 written feedbacks that served as input for individual employee development talks. Additionally, employees could choose whether they wanted to provide or request a short in-the-moment feedback, for example, after an important presentation, or a more comprehensive round of feedback.

To further support employees in their development, we launched a career framework that provides greater transparency on professional and personal development opportunities and the support employees can receive in the process. The career framework provides Zalandos with information on job families, a grouping of roles with similar skill sets over departments, and the relevant abilities that are expected from colleagues in these positions. Each job family is additionally broken down into career stages and impact tracks that go beyond traditional general management career paths and empower employees to provide business impact through business development and expertise. Whatever development path employees choose, we encourage them to use the information and options that we provide and to be proactive in driving their own careers.

In the development talks, managers and employees agreed on targeted development goals and actions. Our employees are encouraged to take the lead and to define their personal development targets. Leaders act as coaches throughout the conversation; a role for which they receive special training in advance. Development talks were further bolstered by our development catalogue. This catalogue promoted development areas and corresponding actions which included skill building on the job, joint learning, and self-study options using digital and offline sources such as videos, articles, and books. In line with our philosophy of continuous development, we wanted to raise awareness among employees for learning opportunities that go beyond classroom sessions and can be integrated into daily work.

As we are continuously learning, we collected a lot of feedback from employees all over the company and in all hierarchies on ZONAR, the tools we used and the support that was provided. This feedback will help us to improve the program and cater to the needs of our employees and the organization. In the long-run, ZONAR will further professionalize our people development with the

help of data. We want to use data for a more coherent understanding of the goals and actions that Zalando is pursuing. This leads to more data-driven decisions on strategic investments in people development.

### Knowledge Transfer from Learning Communities

We invest in an unconventional organizational structure for people development: experts in distinct learning communities develop concepts that are tailored to the knowledge, learning and work environment of the corresponding functions. For example our Tech Academy offers specific training on coding languages, while our Training Teams in Zalando Logistics focus, for example, on tailored leadership development for staff in our fulfillment centers. Our central People Development Team strengthens the relationship between the different learning communities and provides assistance and support to enhance the learning experience. Further, they test innovative learning formats, e.g. virtual reality to foster team communication or using the learning potential of volunteering. The latter provides employees with the opportunity to help social initiatives pro bono with their expertise and thus reinforce or further develop their own expertise and presentation or coaching skills.



[zln.do/en-volunteering](https://zln.do/en-volunteering)

Further, we continued offering employees the pilot program for learning how to code, even if this skill is not required in their current role. With our coding as a foreign language program, we want to prepare employees for the jobs of the future. In 2017, we adapted the program to pilot a learning environment in which non-tech Zalando and refugees learn Java Script together. To enhance the experience of learning with and from each other, the pilot further included workshops on the Arabic language and Syrian culture in which Zalando could learn from refugees and enhance their intercultural skills.

### Leaders with a Special Role

Leaders play a vital role in ensuring that a learning culture and constructive development conversations are fostered at a team level. We are committed to giving employees the opportunity to take on leadership responsibility and to support new as well as experienced leaders. In 2017, we launched programs dedicated to this idea, such as the ZONAR Leaders Series, a series of workshops that prepare managers for a wide variety of situations in performance reviews, e.g. tough talks and feedback labs. Moreover, we have introduced additional leadership programs, including Be a zLeader for first time leads and Core of Coaching to help enhance leaders' abilities to coach employees.

### Our Culture – Open and Honest

An open feedback culture is a prerequisite for a successful company. We use our recurring online survey zBeat (five surveys during 2017) to see how satisfied employees are and how they gauge certain issues such as our feedback culture at the time in question. The results from the business units are published for all to see, so that managers and teams can discuss them with each other. The participation rate for the surveys is approximately 50% on average.

Our interactive intranet zLive allows us to share information within the whole company or relevant groups promptly and in real time. All employees can send updates, for example to their team or their network. The functionalities are similar to those of a social network and promote a company-wide conversation in which everyone with access to the Zalando network can participate.

Direct exchanges between the Management Board and the employees are very important for us. There are three formats for this: the All-Hands meeting, the zTalk, and the recently introduced Ask-Us-Anything format. The All-Hands meeting is used by our Management Board to inform all Zalandos about strategic topics and company-wide projects. In our zTalk, the Management Board and/or guest speakers provide inspiration and talk about relevant trends in our industry. Our new Ask-Us-Anything format allows all of our employees to discuss current issues and topics with the Zalando management. All-Hands and zTalks are held once every quarter. All the formats can be streamed live in all our locations and are also accessible online afterwards. At the end of each meeting, employees have the opportunity to ask the speakers questions – live or online. Another format, zInsights, offers each team the opportunity, as needed, to inform all Zalandos about projects and initiatives that are relevant for large parts of the company.

GRI 103-1/-2/-3 MA  
Labor/Management Relations

We also encourage exchanges between local leadership and employees in our Zalando Logistics. In weekly consultations hours, employees have the opportunity to share their opinions, questions, and ideas. In addition, we have our Logistics News, an informative print magazine that we publish every two months, in particular for the employees at our fulfillment centers. The magazine covers both general news about Zalando and Zalando Logistics as well as specific issues related to the particular location.

### Promoting Inclusion and Diversity

The diversity of people, lifestyles, opinions, and attitudes are crucial drivers of innovation and success. That is why inclusion and diversity are firmly embedded in the corporate culture at Zalando. For us, inclusion describes a culture in which we can all collaborate, develop our unique talents, and achieve excellence together. We believe that an inclusive culture is the most effective way for us to increase diversity within the company and benefit from it.

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

We are continuing to raise awareness about the importance of inclusion and diversity when onboarding new employees. Further, teams have the opportunity to access tools designed to strengthen their own inclusive culture and to exchange experiences and articles on zLive. Zalandos who want to get involved as inclusion and diversity champions are given the opportunity to do this in our network for diversity called Diversity Guild, which was originally limited to our technology teams, but is now active throughout the company. We additionally celebrate special occasions and participate in external events that emphasize various dimensions of diversity, such as the German Diversity Day, International Women's Day, and Christopher Street Day. Furthermore, we started to invite guest speakers to share their insights with employees, e.g. in one of our zInsights.

GRI 102-12

In 2017, we took part in an increasing number of conferences and events in the tech community on the topic of gender equality and LGBT<sup>3</sup> and drafted our job advertisements to be gender-neutral. We are additionally revising our hiring process with the aim of increasing the diversity of candidates and thus of the company itself.

Employee surveys in 2017 show that our efforts have a positive impact: 73% of employees have the impression that different perspectives and experiences are valued in their team. 81% believe that they can be themselves at work and feel accepted.

3) LGBT stands for "lesbian, gay, bisexual and transgender."

Zalando is a highly international employer. We unite people from 131 countries, and approximately 43% of our employees are non-German citizens. To create a welcoming culture for international colleagues, we provide them with support during the local registration process, with translations of important documents such as health and safety training, and offer mentoring programs, to name but a few.

Diversity is also a high priority in Zalando Logistics. At each location, trainings are provided to strengthen intercultural skills, and events are organized to raise awareness of similarities and differences between cultures, languages, and journeys through life. Moreover, our locations are involved in local and nationwide initiatives. Our fulfillment center in Erfurt, for example, has signed the Charta der Vielfalt (Diversity Charter), while the one in Brieselang is an active member in the initiative Tolerantes Brandenburg.

GRI 102-12  
GRI 102-13

### Women in Leadership

We are dedicated to increasing female representation in leadership positions and therefore set a target for 2022: we are striving to increase the percentage of female managers at the first level below the Management Board (SVPs) to 25% (currently 11%) and at the second level below the Management Board (VPs) to 30% (currently: 19%).

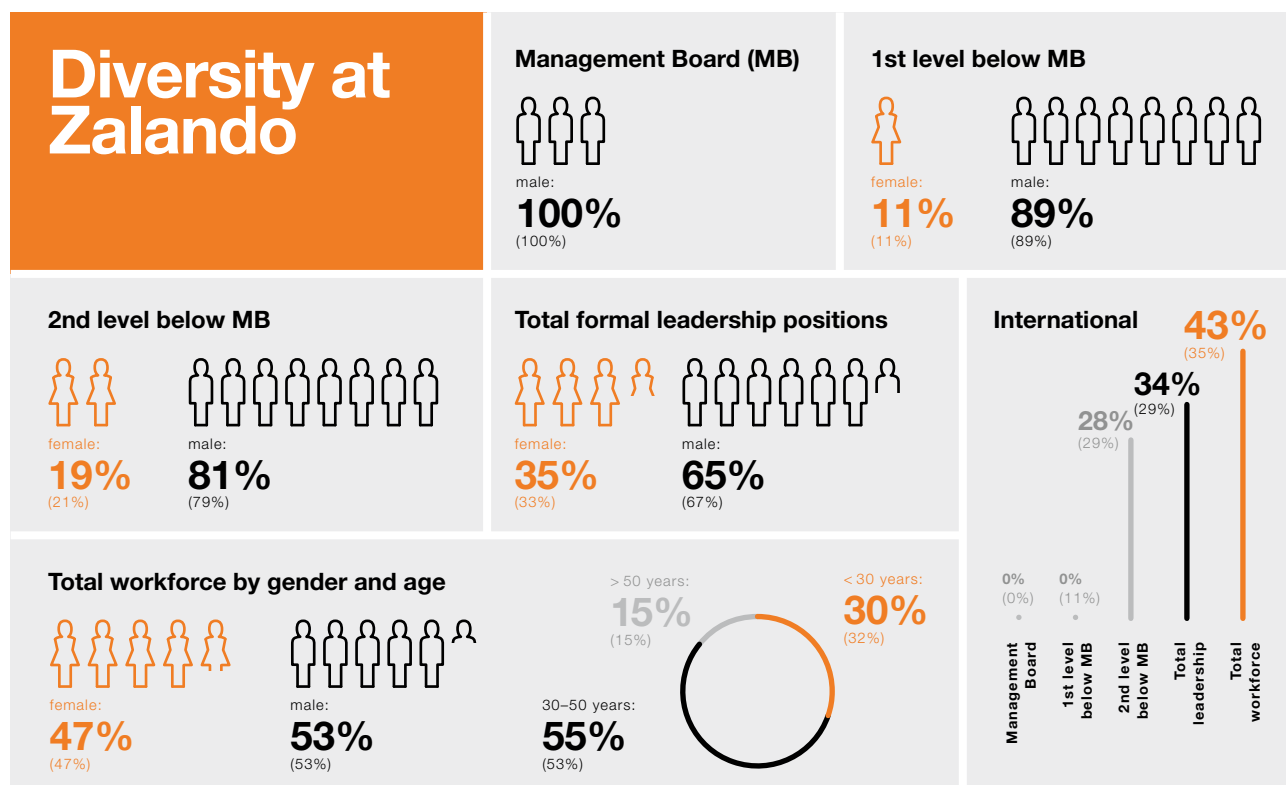
GRI 405-1



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[zln.do/en-supervisory-board](https://zln.do/en-supervisory-board)

### Employees by Gender and International Background\*

→ 05



\*) The figures from the previous fiscal year are shown in parentheses. Numbers displayed do not include Anatwine Ltd., Ifansho Portugal Unipessoal Lda., KICKZ Never Not Ballin' GmbH, zLabels Trading Ltd., zLabels Trading Southern Europe S.L.U.

### Family Friendliness

In order to be an attractive employer for parents, we offer flexible working hours and job location solutions as well as childcare facilities. With our mom-and-dad shift in our fulfillment centers, we have established a family-friendly shift system that was designed in collaboration with our employees and has been very well received by them. At the same time, an ever-increasing number of our employees are making use of their right to parental leave.



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Zalando Keeps Growing p. 17

### Zero Tolerance for Discrimination

We do not tolerate breaches of the principles of our corporate culture and discrimination of any kind. Our Code of Ethics and guidelines for the implementation of the German Equal Treatment Act (AGG – Allgemeines Gleichbehandlungsgesetz) form the basis of fair and respectful interactions. If Zalando employees feel discriminated against, they have several options for putting forward their concerns:

- Our Compliance function by using the Ask and Tell process (which can also be done anonymously)
- Their contact person in P&O, our Human Resources Department
- Social workers in the fulfillment centers and our customer care
- Works councils or other employee participation bodies such as ZEP (Zalando Employee Participation)



GRI 103-1/-2/-3 MA  
Non-Discrimination  
GRI 102-16  
GRI 406-1

[zln.do/en-ethics](https://zln.do/en-ethics)

All cases are taken seriously and processed in accordance with legal requirements.

## Attractive and Fair Employment Conditions

### Our Remuneration Model

Fair compensation that is in line with market standards is an integral element of good employment conditions for us. We continuously review our pay system to ensure that it is attractive and motivating. Employees receive a remuneration mix comprising a fixed salary at market level, special bonuses for outstanding performance, and a broad range of attractive benefits. The remuneration for our leaders consists of a monthly salary as well as long-term oriented share options granted on an annual basis. This is intended to further reinforce the entrepreneurial spirit of our leadership and to foster a sense of ownership.

GRI 103-1/-2/-3 MA  
Employment

As benefits, we offer discounts in our shop, free and subsidized employee stock ownership plans, life insurance, contributions to public transport tickets, as well as free fruit and soft drinks at work. Furthermore, employees benefit from health programs including sports activities, massages and workshops, e.g. on mental health. The health programs differ between our locations.

GRI 401-2

The remuneration for each individual position at Zalando is regularly compared to market levels and adjusted based on the individual skills, experience and performance of the employee. Clearly defined criteria and processes for remuneration decisions ensure objectivity and internal fairness. With this approach we strive to avoid, for example, pay gaps between men and women. To provide our employees with as much transparency as possible, we inform them of the individual pay level in comparison with our salary bands in the course of the annual performance and feedback review.

Salaries at Zalando Logistics are based on the general conditions of the collective bargaining agreements in the logistics industry. Especially in Zalando Logistics, temporary staff contributes to our success every day. Fairness and respect for them are established elements of our corporate culture. We clearly state in our social standards that temporary workers shall receive the same hourly wage as our permanent employees.

### Social Standards in Zalando Logistics

Approximately 62% and thus a significant part of Zalando's employees works in our operations. With a high level of commitment, these employees ensure that more than 23m active Zalando customers in 15 European markets experience convenient and reliable service every day. A large part of our logistics is covered by our own fulfillment centers. To show our appreciation of this contribution, we strive to continuously improve the working conditions at all Zalando Logistics locations and those of our partners and therefore set this as one of our main targets in our do.GROW area. Our expectations in this regard are summarized in our social standards, which are applied both in our own fulfillment centers and in those operated by our partners in the Fashion Store logistics network. These standards are based on our Code of Ethics and Code of Conduct and include topics such as equal opportunities, remuneration, working hours and freedom of association. As part of the continuous improvement process of working conditions, we updated the social standards in 2017.

In our own Fashion Store fulfillment centers the implementation of our social standards is reviewed twice a year in the form of an unannounced audit by an independent external institution, DEKRA. The average result of the audits in summer 2017 at our sites in Brieselang, Erfurt, Lahr and Mönchengladbach was 1.41 (on a scale of 1 = very good to 4 = not sufficient). We thus monitor compliance with our social standards and derive measures to improve working conditions. The auditing process was furthermore checked by our internal audit function in 2017.

Employees as well as temporary staff at our own fulfillment centers have the opportunity to address all concerns to social workers and to receive counseling during their working hours – also in private matters.

We value co-determination and are in continuous dialogue with our employees. In order to stay on top of the strong competition for employees and potential applicants, we have to meet high standards and continuously work on further improvements – in general and at each location. That is why we strive to provide good working conditions and fair compensation models that we develop in a joint effort with our employees. Several works councils have already been established and actively engage at the corresponding locations.

GRI 102-16

[zln.do/en-CR-Contact](https://zln.do/en-CR-Contact)

GRI 402-1

### Providing a Healthy and Safe Work Environment

We want to offer our employees a safe and healthy work environment. That is why we aim at completely preventing accidents (Vision Zero) and minimizing the risk of occupational illnesses. Our health and safety management concentrates on both the physical and the mental health of our employees.

GRI 103-1/-2/-3 MA  
Occupational Health and  
Safety



We have established clear and reliable structures within Zalando and Zalando Logistics that offer tailored solutions for corresponding work environments. Depending on the risks that have been identified, the Zalando companies are reviewed every one to six months by internal and external auditors, who base their work on the OHSAS standards. Appropriate measures are derived from this process, the effectiveness of which is reviewed in the course of follow-up inspections.

#### Health and Safety Indicators\*

→ 01

GRI 403-2

	2017	2016
Absentee rate Zalando Logistics	10.6%	11.2%
Absentee rate Zalando excluding Zalando Logistics	4.6%	5.3%
Work-related fatalities	0	0

\*) Numbers displayed do not include Anatwine Ltd., Ifansho Portugal Unipessoal Lda., KICKZ Never Not Ballin' GmbH, zLabels Trading Ltd., zLabels Trading Southern Europe S.L.U.

In order to prevent accidents in our office buildings, there are online tutorials, training courses for fire safety assistants and first aid helpers, while protective equipment is provided along with supporting information on zLive. Furthermore, we offer our employees health-promoting activities on a regular and voluntary basis, including preventive occupational health care. In 2017, employees could participate in an extensive range of sports programs, massages, vaccinations and consultations on ergonomics at the workplace. The program also included workshops on mindfulness, meditation and Qi Gong.



[zln.do/en-health](https://zln.do/en-health)

In our fulfillment centers, all health and safety issues are resolved in close consultation with the employee representatives. There are occupational health and safety committees following up on the needs of our employees. The focus of optimization measures is placed on ergonomic work at height-adjustable tables and the implementation of shift schedules designed to prevent monotonous movement patterns. Employees can also have free vaccinations and benefit from regular sports activities. We work closely together with our in-house doctors on all measures.

## 1.2.3 do.KNOW

do.KNOW

→ 06

Impact vision	Aspired outcome	Targets	Timing
<b>Contribute to a more sustainable fashion industry</b>  	<b>Zalando is a leading online destination for sustainable fashion</b>	Grow the selection of sustainable fashion in our Fashion Store.	2020
		Improve navigation and visibility of sustainable fashion in Fashion Store.	2018
		Use our unique position as a tech and a fashion company to increase transparency in the fashion value chain.	2020
	<b>Our private labels have improved their social and environmental footprint</b>	Source 25% of private label products from factories in our Factory Improvement Program.	2018
		Reduce carbon, water and waste footprint of our suppliers by 10% to meet European Clothing Action Plan targets.	2019
		Eliminate critical heavy metals.	2020

We want to leverage our unique position as a fashion and tech company with an enormous outreach to contribute to a more sustainable fashion industry. For us, this implies providing customers with a great choice of sustainable and fashionable items and at the same time a convenient and transparent shopping experience. In our own supply chain, we are aware of the responsibility we have towards people and the environment and are committed to improving the social and environmental footprint of private label products.


[zln.do/en-assortment](https://zln.do/en-assortment)

### Our Supply Chain

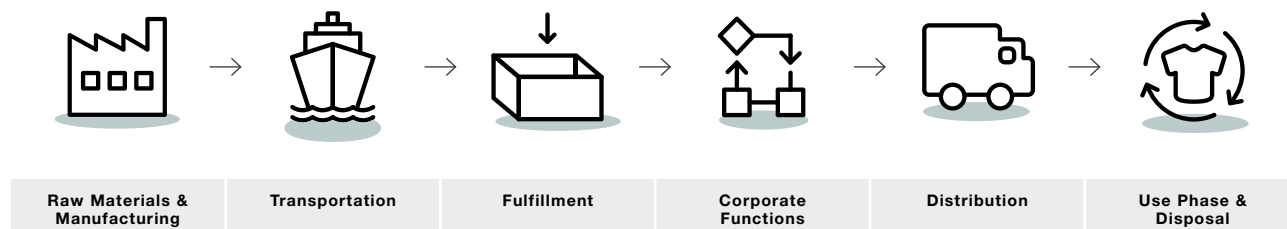
Our supply chain can be broken down into six phases. In the first two phases, third-party brands and our private labels produce items that are transported to our fulfillment centers. In the fulfillment centers, products are stored and prepared as soon as customers place an order. Our internal corporate functions – such as technology, marketing, and customer service – ensure that customers have a convenient shopping experience. Distribution partners subsequently deliver the products to our customers. The last stage of the supply chain is the use phase and ultimately the disposal of products.

GRI 102-9


[zln.do/en-supply-chain](https://zln.do/en-supply-chain)

## Our Supply Chain

→ 07



Supply chains for producing fashion are very complex and span across the globe – our supply chain is no exception. This entails challenges and risks, especially in terms of human rights, working conditions, and environmental protection. That is why we strive to improve the social and environmental impact of the products on our platform. In our approach, we distinguish between third-party brands and our private labels. The work involving our private labels represents a significant part of Zalando's commitment to improvements in the supply chain, as our impact is stronger at this point. This will be reflected in the following subchapters on sustainable products, animal welfare, human rights and product safety.

### The Supply Chain of Our Private Labels

Our private label brands such as mint&berry, Pier One and Zign are managed by the Zalando subsidiary zLabels. zLabels has 17 private label brands, which source products from 24 different countries. The main sourcing countries are China (46%), Turkey (10%), India (10%), Bangladesh (8%), Spain (4%), Portugal (4%), Vietnam (3%), Romania (2%), Cambodia (2%) and Bulgaria (2%). Due to the size and variety of our assortment, zLabels does not own any supply base or factories, but rather collaborates with sourcing partners and agents with years of technical expertise in their respective product areas. We currently cooperate with 272 sourcing partners and 450 factories<sup>4</sup>, a small decrease in comparison to 2016. Consolidating our sourcing partner base and strengthening relationships with strategic partners helps us to maintain better oversight over the supply chain and to work closely with partners on an individual basis.

GRI 102-4  
GRI 102-9  
GRI 102-10

Gaining transparency throughout the supply chain is an important focus for us, and in 2017 we began a mapping exercise for tier 2 processes in order to trace and track our sourcing partners along this tier.

4) Status December 29, 2017

## Our Commitment to Sustainable Fashion

It is our ambition to become a leading online destination for sustainable fashion. More and more customers are interested in ethical, animal- and environmentally friendly clothing. That is why we want to use our expertise in technology and fashion to provide customers with an attractive offering as well as the necessary transparency for an informed buying decision. Today's market for sustainable fashion is still fragmented and difficult to navigate for customers in terms of easily accessible and understandable product information. Certificates such as GRS (Global Recycling Standard) are intended to help, but are largely still unknown among customers and, because there are so many, can easily cause confusion. We want to improve this situation for our customers with product transparency and simple online navigation.

Sustainability is becoming an important new driver of consumers' purchasing decisions.

The State of Fashion, McKinsey 2017

31% of all customers in Germany purchased sustainable fashion in 2016.

Dr. Grieger & Cie Marktforschung



[zln.do/en-sustainability](https://zln.do/en-sustainability)

We are exploring new ways to highlight information on certified products that we offer online, and our customers have responded positively to these efforts so far. Our on-site personalization initiative in the online shop simplifies the search for labels such as Fairtrade or Organic Cotton. In addition, we are testing customer communication on sustainability topics such as sustainable jeans products through a separate microsite.



[www.zalando.co.uk/sustainable-fashion/](https://www.zalando.co.uk/sustainable-fashion/)

In 2016, we launched the sustainable flag in the children's category in the German Fashion Store, and expanded it to all markets and categories in 2017. We continue to refer to certificates such as Fairtrade and the Global Organic Textile Standard (GOTS) in order to fulfill the highest and externally audited standards. At the same time, we know that many innovative brands are implementing high sustainability requirements in their products and supply chains without having these certified by an external organization. We are working on ways to highlight their commitment towards customers. In this process we are collaborating with brand partners and experts from the industry.

### Sustainable Products at Our Private Labels

We have a responsibility to improve the clothes that we make. To this end, we are making strides towards growing our offer of sustainable products. In 2016, we began developing our first sustainable products as part of our re:imagine collection, which we launched in January 2017. It included 48 styles across five different brands, certified with GOTS and GRS. We continued to offer the re:imagine collection throughout 2017, and our organic cotton range for babies, STUPS Organic, will be fully GOTS certified for the upcoming spring/summer 2018 season.

This year we also took some sizeable steps forward to scale up our sustainability efforts across the entire zLabels brand portfolio. We joined the Sustainable Apparel Coalition (SAC) and submitted our first results to the SAC's Higg Index to benchmark our performance against other leading brands. Minimizing water and waste is one of our focus areas in our supply chain, and by using the Higg Index we will be able to measure the sustainability performance of our partners and their factories. We are actively engaging with our sourcing partners to increase the number of tier 1 factories using the Higg Index.

GRI 103-1/-2/-3 MA Water  
GRI 103-1/-2/-3 MA Supplier  
Environmental Assessment  
GRI 102-13

Collaborating closely with the rest of the industry is important to us as we are constantly exploring better solutions to common challenges. In 2017, we travelled to the University of Santiago de Compostela to receive advice on a range of topics and are actively using open-source tools such as the SAC's Materials Sustainability Index and data from Nike's Making app to make more informed decisions.

We signed up to the European Clothing Action Plan (E-CAP) to reduce the environmental impact of our products and have set ourselves a minimum target of 10% in carbon, water and waste savings by 2019 by switching to more sustainable fabrics such as organic cotton, TENCEL®/Lyocell and recycled polyester. We are working closely with our Design and Sourcing Teams to change our buying habits from conventional materials to more environmentally-friendly alternatives and are investing in training delivered by external experts on topics such as recycled materials, wet processing and trims.

GRI 102-12  
GRI 103-1/-2/-3 MA Materials

To continue our journey of sourcing more sustainable fabrics, we became members of the Better Cotton Initiative, which exists to make global cotton production better for the people who produce it, better for the environment it grows in and better for the sector's future.

GRI 102-13

While leather offers some important benefits in terms of product quality and lifespan, we are aware that the production process is associated with many complex social and environmental issues. In 2017, we began investigating our leather supply chain past tier 1 and became members of the Leather Working Group, which rates tanneries under its Gold, Silver and Bronze system. We have now identified five strategic tanneries/sourcing partners that we will work with over the coming years to improve environmental standards and the lives of the many people supported by the leather industry.

### Committing to Animal Welfare

Zalando is committed to animal welfare and the conservation of biodiversity. Our ethical sourcing standards are based on Directive 98/58/EC concerning the protection of animals kept for farming purposes and the standards of the World Organisation for Animal Health (OIE). Zalando does not sell any products that originate from endangered species listed in international conventions. We allow only products from farming animals that have been bred for meat production. Further, we condemn any form of cruelty to animals and do not sell any type of rabbit wool such as angora. Zalando stopped selling articles made of fur in 2012 and has been a member of the Fur Free Retailer initiative since 2016. This organization informs consumers about how retailers deal with fur products and supports retailers who undertake not to sell fur.

GRI 102-2  
GRI 102-12  
GRI 102-13  
GRI 102-16

### Animal Welfare at Our Private Labels

We expect even higher standards for our private labels, and in 2017 we started to implement the Responsible Down Standard (RDS) across all our private brands. We also know that vegan products are important to our customers, and for autumn/winter 2017 we launched 27 additional vegan shoe styles under our Even&Odd label, which we intend to expand significantly over the next few seasons. We were very proud that one of our shoes was selected as the winner of PETA's Vegan Fashion Award and are collaborating closely with PETA on the roll-out of our vegan strategy to other brands.

GRI 102-16

## Protecting Human Rights in Our Supply Chain

Our Code of Conduct sets the minimum standards that we expect all our business partners and their subcontractors to comply with, such as minimum wage, freedom of association and the absence of forced labor, child labor, and discrimination. It is based on the principles of the Universal Declaration of Human Rights (UDHR) and the Conventions of the International Labor Organization (ILO). We continuously review the minimum standards we set forth with our Code of Conduct and update it on a regular basis. The latest update took place in 2017.

### Audit Program of Our Private Labels

Checking that our sourcing partners comply with our Code of Conduct and treat the workers in our supply chain ethically and fairly is a crucial part of our work at zLabels. In 2017, we reviewed and relaunched our audit program with changes to create a more robust program. The new program was communicated to our sourcing partners in December 2016, and the changes were implemented in March 2017. We limited the number of auditing companies and reduced the types of audits we accept. We remain committed to reducing audit fatigue and working together with the industry to find a common solution. We are also collaborating with other brands through the Social and Labor Convergence Project.

GRI 103-1/-2/-3 MA  
– Freedom of Association and  
Collective Bargaining  
– Child Labor  
– Forced or Compulsory  
Labor  
– Human Rights Assessment  
– Supplier Social Assessment  
GRI 308-1  
GRI 407-1  
GRI 408-1  
GRI 409-1  
GRI 412-1  
GRI 414-1

Our Ethical Trade Team evaluates all audits received against our internal non-compliance matrix. The matrix is based on the standards set forth in our Code of Conduct as well as local legal requirements. The findings on non-compliances are clustered into minor, major and critical, a rating is given to the factory, and a Corrective Action Plan (CAP) is sent.

In order to address specific country risks, we developed a country risk categorization based on international indicators as well as audit findings. This risk categorization allows us to focus our work on areas where the greatest improvements need to be made. This year we added additional requirements for factories from twelve different countries, and we also launched additional policies to protect migrant and homeworkers.

As part of our onboarding process, all new sourcing partners must sign our Code of Conduct, and the corresponding factory must meet all ethical requirements before orders can be placed. As part of the updates to our audit program, we now require an audit that has been conducted within the past twelve months to set up a new factory. If critical findings are observed, we do not begin the relationship without evidence that the existing findings have been remediated. In the past year, we rejected the onboarding of 52 factories due to ethical trade concerns.

For our existing factories, we request new audits every twelve months to monitor and reassess factory conditions. In 2017, we evaluated 506 audit reports for new and existing factories. If a critical instance of non-compliance is found at an existing factory, we require evidence of improvement to continue our business relationship.

The addition of a new Ethical Trade Team based in Hong Kong has enabled us to develop closer relationships with our partners at source. Our Ethical Trade Team visited 68 factories in 2017. Our team based in Hong Kong also works closely with our partners and their factories to develop customized improvement plans based on the challenges faced by individual factories.

We believe internal training is key to establishing good practice across the business. To ensure Sourcing and Product Teams are aware of the impact of buying decisions on our supply chain, we rolled out a new ethical trade e-learning. It is mandatory for all zLabels employees to complete the e-learning and in addition, specific training on sustainability and ethical trade topics were also offered throughout the year.

### Factory Improvement Program (FIP) of Our Private Labels

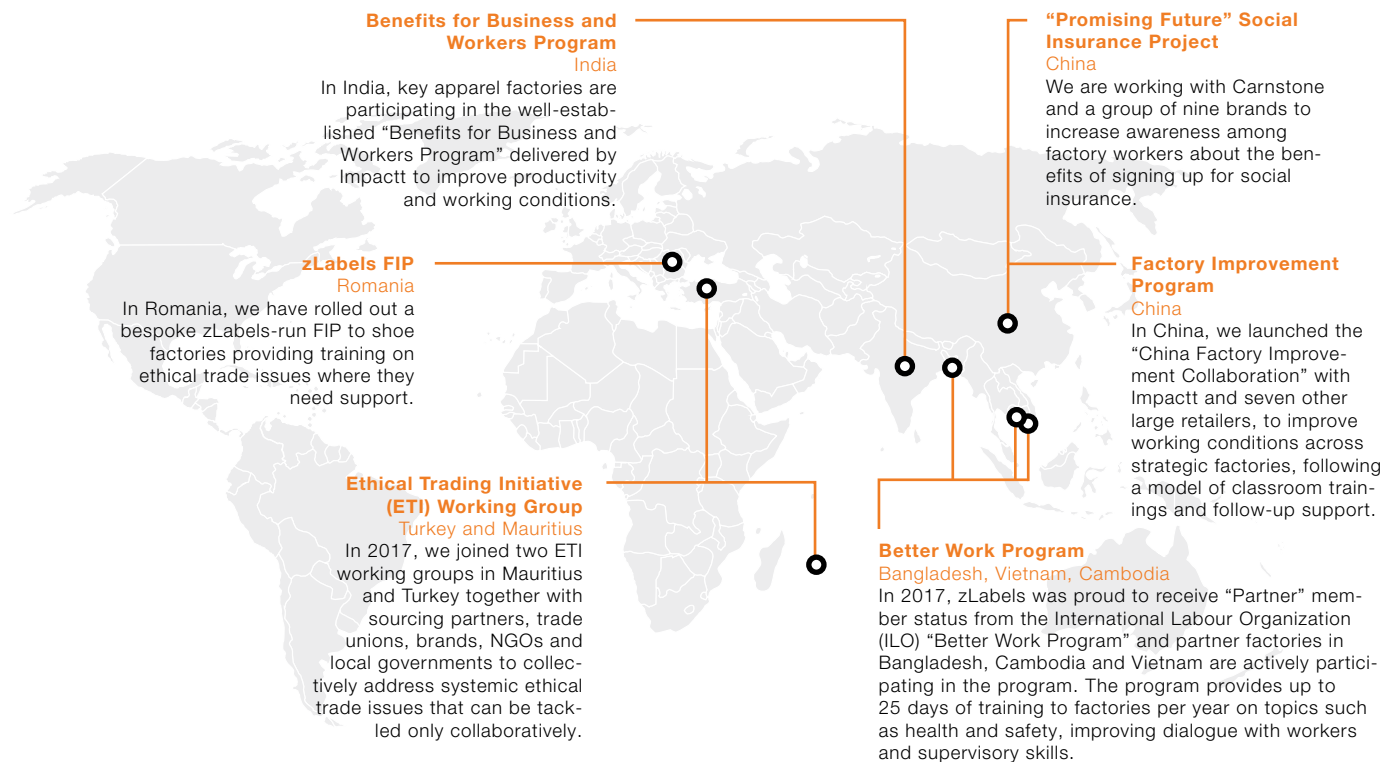
zLabels is committed to improving working conditions in our supply chain and we realize that to achieve this, we need to go beyond auditing and support partners and their factories on the ground. Our FIP has grown this year, and as shown in figure 08, we now have seven programs and initiatives across eight countries, working with four independent partners. 20% of our products are sourced from participating factories. Our aim is to increase the share of products sourced from FIP factories to 25% in 2018.

We regularly review our classification of high-risk countries and focus on factories in the countries where there is the greatest need for action. We also select factories based on their respective performance and need for support.

GRI 102-12  
GRI 102-13

### zLabels Factory Improvement Program in 2017

→ 08



Sourcing from many countries across the world, with different cultures, governance, legislation and business practices, means that we must approach factory improvement work in different ways to ensure the support we offer is tailored and relevant. This is reflected in the various programs and initiatives we choose.

We are also aware that many ethical trade issues we face in our supply chain are endemic to the countries we work in and cannot be tackled alone. We therefore work as collaboratively as possible with other brands, organizations, trade unions, NGOs, sourcing partners and government stakeholders to drive improvements through the industry together.

To incentivize factories to go beyond auditing and engage in capacity-building factory improvement work, we do not request a social audit report for the duration that a factory is in an FIP and award additional points to the zLabels ethical trade score.

We continuously monitor our factory improvement work to understand the success of each program and initiative and to ensure we are supporting our partners and their factories in a useful and meaningful way.

#### Our Private Labels in Dialogue with Sourcing Partners

In 2017, we repeated our Vendor Summit in Berlin, Delhi and Hanoi attended by 139 of our sourcing partners. At these summits, we updated our partners on our corporate strategy, our Code of Conduct and the implications of new legislation, such as the UK Modern Slavery Act. Through a series of workshops and moderated panel discussions, we also used the opportunity to engage in a dialogue with our business partners to discuss better ways of working.

The establishment of In-Country Sourcing Teams in Spain, Portugal, India, Hong Kong and China has given us more accessibility to factories, improved linear communication with our partners and overall enhanced the transparency of our supply chain.

At zLabels, we also have a Supplier Partnership Program (SPP) led by our Sourcing Team, which evaluates sourcing partner performance across a range of areas; e.g. quality, ethical trade, product safety, logistics and financial terms. The objective of the SPP is to gain complete transparency of our sourcing partners' performance and provide an incentive by awarding more business to higher-performing sourcing partners. In 2017, we worked closely with key sourcing partners to develop action plans to help support their improvement.

#### Ensuring the Safety and Quality of Our Products

In the interest of customers, factory workers, and the environment, Zalando sets clear guidelines on the permissibility of certain substances in products we sell. The Restricted Substances List (RSL) defines the thresholds that apply to harmful substances and that must not be exceeded. The list applies to all products and is compulsory both for the suppliers of our own brands and for our partner brands.

GRI 103-1/-2/-3 MA  
Customer Health and Safety



In addition to the high quality standards of our partner brands, we have established our own guidelines and processes for ensuring product quality. Using a scorecard approach for all product categories allows us to focus on products that exhibit a higher safety risk. We work with the suppliers in question so that these products fulfill all requirements, and we encourage communication and exchanges on best practices.

Zalando furthermore responds immediately to information and questions from various channels, such as customer ratings, customer care queries, the weekly RAPEX report, and the media. If these create doubts over the safety of a product, Zalando suspends respective sales as a precautionary measure and, if necessary, immediately recalls products that have been sold. We had 13 recalls in 2017 while our assortment range covers around 200,000 units. This is line with the 2016 numbers when we had to manage 15 recalls.

GRI 416-2

#### Product Responsibility at Our Private Labels

We review the products sourced for our private labels at an early stage in order to be able to implement any corrective measures immediately. This way, the items that reach our customers fulfill our high standards. There were no recalls for our private label products in 2017.

GRI 416-1  
GRI 416-2

We want to continually reduce the volume of harmful chemicals used in the production of our private labels. This effort means less risk to customers, workers along the supply chain, and the environment. With the support of the University of Santiago de Compostela, TÜV and Bureau Veritas, we reviewed and updated our standards on restricted substances in 2017 to ensure that they were following state-of-the-art science. The chemicals restriction list now contains more than 300 restricted substances. Moreover, we successfully adjusted our chemical management system and internal guidelines to comply with international standards such as the EU systems (REACH and POP) and the standards of the US Consumer Product Safety Commission.

All sourcing partners are required to avoid the use of possibly harmful substances to ensure that our products are safe. We fine-tuned our chemical test routine and risk assessment, which led to improvements in sourcing partners' performance for good chemical management. Our bespoke Continuous Improvement Program allows us to monitor and rank our sourcing partner using a scorecard and to drive specific actions for the most challenging sourcing partners. This effort already resulted in a total improvement of 36% for the score of those sourcing partners from the spring/summer season to the fall/winter season 2017.


Throughout 2017 approximately 12,000 chemical tests were conducted for our private label products. Due to comprehensive testing, monitoring and chemical elimination programs, we were able to improve the fail rate in most critical parameters by 28% compared to 2016.

In 2017, we initiated a program to phase out critical heavy metals, where technically possible, from the manufacturing process step-by-step until 2020. As a first result, we were able to eliminate 25% of those hazards in our products.

## 1.2.4 do.PROTECT

## do.PROTECT

→ 09

Impact vision	Aspired outcome	Targets	Timing
<b>Decouple our environmental footprint from our economic growth</b>  	<b>We have mobilized our full climate protection potential across our value chain</b>	Reduce CO <sub>2</sub> emissions per order by 10% by 2020 compared to 2017 levels.	2020
		Require and enable 100% of our packaging suppliers and nation-wide carrier partners to provide us with CO <sub>2</sub> data for our footprint calculation and commit to reducing CO <sub>2</sub> emissions by 2020.	2020
	<b>Zalando has taken sustainable packaging to the next level</b>	We want 100% of our packaging to be sustainably sourced.*	2020

\*) Packaging procured by Zalando. For packaging not procured by us, we work with our partners to achieve the 100% target over time.

### Commitment to Climate Protection

Zalando has grown successfully in the past few years and has set itself the ambitious target of doubling its business by 2020 compared to 2017. This growth has been accompanied by a larger ecological footprint, including increasing carbon emissions. As a first step towards separating our economic growth from our environmental impact, we developed Zalando's first climate protection strategy in 2017, which will be rolled out in 2018. Teams from all relevant business units were involved, contributing their ideas on how to reduce CO<sub>2</sub> emissions in the future. Our aim is to activate the full climate protection potential across our value chain. This includes two targets: 1) Reduce CO<sub>2</sub> emissions per order by 10% by 2020 compared to 2017 levels, and 2) Require and enable 100% of our packaging suppliers and nation-wide carrier partners to provide us with CO<sub>2</sub> data for our footprint calculation and commit to reducing CO<sub>2</sub> emissions by 2020.

### Measuring CO<sub>2</sub> Emissions Every Year

To define the strategic orientation of our climate related activities, we need transparency on the environmental impact of our business operations. That is why we regularly measure our corporate carbon footprint. We continue to do this following the guidelines of the internationally recognized Greenhouse Gas Protocol and work with ClimatePartner, an international consultancy specializing in CO<sub>2</sub> accounting and climate protection strategies.

We track and report our Scope 1 and Scope 2 emissions for all relevant administrative and logistics locations.<sup>5</sup> The Scope 3 emissions that we track include those sources that we have identified as carbon hotspots in our upstream and downstream value chain.<sup>6</sup> To collect meaningful data on these sources, we engage our partners along the supply chain. Emissions from waste generated in our operations and by the purchase of office materials accounted for less than 2% of our CO<sub>2</sub> footprint in the calculations for 2015 and 2016 and are thus not regarded as significant sources. Therefore, they will no longer be taken into account in our calculations from 2017 onward.

GRI 103-1/-2/-3 MA  
Emissions



Further Information  
Corporate Strategy p. 80

GRI 305-1  
GRI 305-2  
GRI 305-3

- 5) Offices and offline stores with more than 40 employees, and our fulfillment centers in Brieselang, Erfurt, Lahr, Mönchengladbach, and Szczecin (Gryfino).
- 6) Outbound logistics incl. returns from Fashion Store, zLabels, Lounge, Zalon; production of packaging materials used for delivering customer orders; inbound logistics (inbound transportation of zLabels products and packaging materials; storage in delivery warehouses); employee commuting based on commuting scenarios; business travel.

CO<sub>2</sub> Emissions

→ 02

IN METRIC TONS	2017	2016**
Scope 1	4,935	3,868
Scope 2*	21,290	18,353
Scope 3	183,425	150,392
<b>Total</b>	<b>209,650</b>	<b>172,613***</b>

\*) The Scope 2 emissions displayed in table 02 are market-based values, which reflect the intensity of the electricity Zalando actually purchases. The location-based value for 2017 is 33,276 metric tons of CO<sub>2</sub>.

\*\*) The 2016 values are not part of the non-financial report.

\*\*\*) Location-based emissions in 2016 were 177,626 metric tons CO<sub>2</sub>. This value is 6,692 metric tons CO<sub>2</sub> lower than the one reported in the annual report 2016. The difference is mainly due to a methodological revision in the calculation of emissions from packaging and outbound logistics.

Our corporate carbon footprint in 2017 totaled 209,650 metric tons of CO<sub>2</sub><sup>7</sup> compared with 172,613 metric tons of CO<sub>2</sub> in 2016. This increase can be attributed primarily to Zalando's growth. At the order level, CO<sub>2</sub> emissions amounted to roughly 2.54 kg.

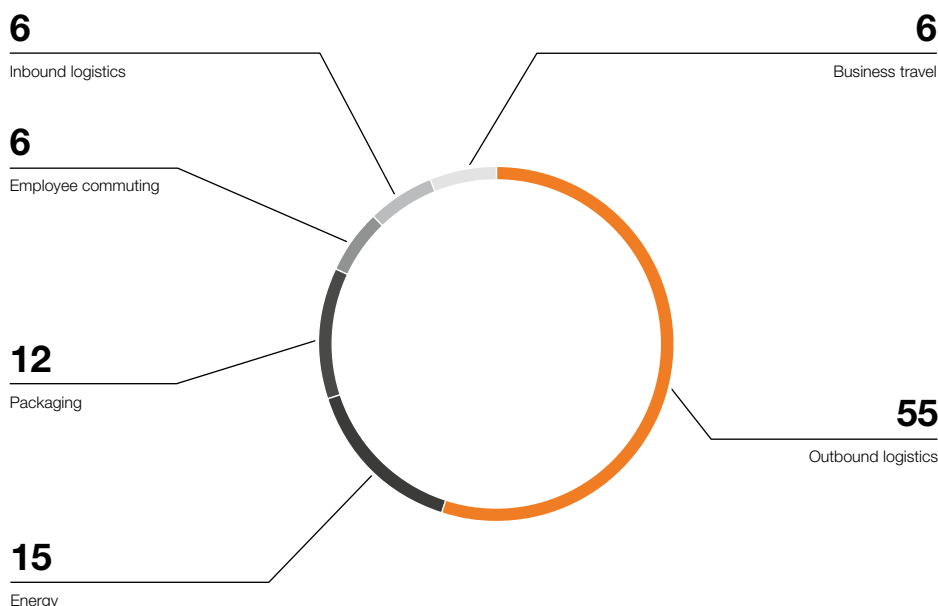
GRI 305-4

Main triggers for CO<sub>2</sub> emissions in the reporting year were the transportation of parcels from our fulfillment centers, including returns (55%), the energy consumed in our offices and fulfillment centers (15%), and the production of packaging materials for the products we sell (12%).

CO<sub>2</sub> Emissions by Source (2017)

→ 10

IN %



7) Greenhouse gas emissions are disclosed as CO<sub>2</sub> equivalents (CO<sub>2</sub>e). All greenhouse gases regulated by the UN Kyoto Protocol have been accounted for: carbon dioxide (CO<sub>2</sub>), methane (CH<sub>4</sub>), nitrous oxide (N<sub>2</sub>O), sulfur hexafluoride (SF<sub>6</sub>), hydrofluorocarbons (HFCs), and perfluorocarbons (PFCs). For better legibility, the emissions are simply referred to as carbon emissions and reported in metric tons of CO<sub>2</sub>.

### Sustainable Initiatives in the Logistics Network

Every day, our fulfillment centers receive products from almost 2,000 brands – products that originate from many different parts of the world. These products are sent to our more than 23m active customers in 15 European countries. In the light of these dimensions, we see efficiency, technical innovation, and raising the awareness of our service providers as the major levers for developing sustainable logistics and reducing our ecological footprint.

We rolled out a pilot project in 2017 aimed at optimizing our procurement logistics using a time slot management system. This solution enables our transport service providers to consolidate their deliveries, which improves truck loading and reduces the number of delivery trips. After the pilot, a further roll-out is planned for 2018. In addition to this, we developed a new feature in our logistics tech landscape that allows us to consolidate orders from a customer that are placed within a defined time frame into a single shipment. We thus reduce not only the environmental impact, but also the delivery costs.

The last mile of local delivery is often reported as the largest contributor to fossil fuel consumption and CO<sub>2</sub> emissions.<sup>8</sup> Our Logistics Network Team regularly launches pilot projects that contribute both to customer satisfaction and to reducing environmental impact. In 2017, Zalando tested Tripl, a Danish electric vehicle that emits zero CO<sub>2</sub> and has a very low noise emission during operation, which is particularly relevant in cities. Moreover, we started piloting deliveries in a preferred 60-minute time frame, chosen by the customer in advance, in some parts of Berlin. Through this pilot, we were able to add a new partner (Hoard), which makes deliveries exclusively by bicycle, to our local delivery network in Berlin.

In order to activate the full climate protection potential across our value chain, we must engage with our service providers. We have therefore started to collect information on CO<sub>2</sub> emissions from all our transport partners as well as from smaller, localized fulfillment centers operated by partners. This way, we not only improve the data quality on our CO<sub>2</sub> emissions, but also gain a helpful foundation for future collaborations relating to environmental protection.

### Innovative Mobility Concepts

In a growing company with a growing workforce, business travel and commuting emissions become more and more significant. These two sources account for 12% of our total CO<sub>2</sub> emissions.

Our travel policy puts phone or video conferencing first to reduce unnecessary travel. For distances shorter than 400 km, we strongly recommend that our employees travel by train. The policy also states that rental cars have to be chosen from the compact class, allowing us to reduce costs as well as CO<sub>2</sub> emissions. Our company car guidelines include the option of leasing cars with alternative drives (e.g. electric cars), thus promoting the use of sustainable mobility.

To facilitate the mobility of our employees between our Berlin offices, a mobility concept was developed in 2017, which will be rolled out in 2018. Sustainability, both economic and ecological, is one of the main criteria in selecting our future mobility business partners.

GRI 102-2  
GRI 103-1/-2/-3 MA  
Emissions



[zln.do/en-logistics-network](https://zln.do/en-logistics-network)



[zln.do/en-post-order-experience](https://zln.do/en-post-order-experience)

GRI 305-3

8) [https://www.researchgate.net/publication/266977016\\_Carbon\\_emissions\\_comparison\\_of\\_last\\_mile\\_delivery\\_versus\\_customer\\_pickup](https://www.researchgate.net/publication/266977016_Carbon_emissions_comparison_of_last_mile_delivery_versus_customer_pickup)

As the emissions from commuting (6%) can be traced back primarily to our fulfillment centers, our commitment is not limited to our Berlin locations. At our fulfillment center in Erfurt, for example, we have entered into a partnership with JobRad to make it easy for our employees to rent a bicycle locally. What's more – and also based on our wishes and the input received from the works council – a cycle path has been created from Erfurt to the Zalando fulfillment center. Additionally, our employees there can repair their bikes free of charge at professionally equipped maintenance pillars located near the bicycle shelters.

To make it easier for employees to get to our location in Lahr, we have initiated two bus routes that are now operated by local transportation companies.

### Energy Management Promotes Climate Protection

The growth of our company also means that we require more floor space. As a result, our energy consumption has increased by 47.2% from 2016. We see increases in efficiency and investments in renewable energy as critical levers for conserving resources and protecting the environment.

GRI 103-1/-2/-3 MA Energy

In 2017, we expanded the use of smart meters to our main administration building. We now have real-time data available on our energy consumption and the opportunity to manage this more efficiently in the future. Furthermore, the last quarter of 2017 saw us commencing the introduction of an energy management system for our office buildings, starting with the main administration building. We intend to get an ISO 50001 certification for it by the end of 2018. A decision will then be made on expanding the certification to other offices.

In order to operate our fulfillment centers in a more energy-efficient way, we continue to pursue the goal of introducing an integrated energy management system at our locations in Germany. Technical difficulties have led to a delay in the introduction of this system, which is now planned for 2018.

In addition to increasing our energy efficiency, we are focusing on the use of renewable energies as part of our climate protection strategy. Therefore, starting in January 2018, we switched to 100% renewable electricity in our German operations. Moreover, we started using climate-neutral gas this year to heat the fulfillment centers that we operate in Germany.

Our recently constructed fulfillment center in Lahr will be partially fitted with solar panels. This is expected to cover 13% of the electricity requirement there in 2018. The CO<sub>2</sub> savings anticipated from this measure amount to 650 metric tons per year.

## Energy Consumption

→ 03

GRI 302-1

IN MWH	2017	2016
Electricity (total)	50,840	37,159
Electricity from renewable sources	22,840	12,634
District heating	11,864	2,761
Natural gas	20,297	16,351
Car fleet	1,402	1,072
<b>Total</b>	<b>84,402</b>	<b>57,342</b>

## Resource Efficiency in Packaging and Waste

With our business volume increasing, we also expect an increase in the amount of packaging material we use. In order to decouple our economic growth from our ecological footprint, we want to raise the sustainability of our packaging materials. For example, we aim to source 100% of our packaging material from sustainable sources by 2020<sup>9</sup> and to ensure it can be recycled after use. 25,149 metric tons of packaging materials were used at Zalando for customer deliveries in 2017. 93% of these came from renewable sources.

GRI 103-1/-2/-3 MA Materials  
GRI 301-1  
GRI 301-2

Our approach to the use of packaging materials is based both on customer-centricity and on environmental factors. To be able to offer our customers the best unpacking and return experience in the industry is enormously important for our business model. So our mailing envelopes and almost all of our boxes have an integrated return strip that makes them easy to reseal. We have noticed that some of our customers continue to use standard adhesive tape when sending back mailing envelopes and boxes, which leads to additional waste and more resources being consumed. In order to make the return process easy for our customers, but also to encourage them to refrain from using additional adhesive tape, we began marking the return strip with an additional label in 2017.

Given the limited natural resources worldwide, we use packaging material as sparingly as possible. We therefore work closely with our partners to continually reduce the amount of materials used for each box. For example, the thickness of the material of our smallest boxes has been reduced, which enabled us to save approximately 3,000 metric tons of paper in 2017.

GRI 103-1/-2/-3 MA Materials

Our shipping envelopes also offer ecological benefits. They allow our employees to adjust the size when sealing. Air holes ensure that excess air can escape, meaning the envelopes take up less space during transport. The share of total volume sent in shipping envelopes has increased from an average of 17% in 2016 to 21% in 2017.

9) Packaging procured by Zalando. For packaging not procured by us, we work with our partners to achieve the 100% target over time.

### Handling Waste Properly

Paper and municipal waste are the most frequent types of waste from our offices; in contrast, most waste in our fulfillment centers, outlets, and photo studios is caused by the packaging used to ship and return the products that we sell. 50% of the materials used as packaging in all product categories was sent back to us and recycled.

Zalando sees the recycling of packaging in our fulfillment centers as an important ecological duty, so all shipping cartons and foil bags that can no longer be used are collected, sorted, and recycled. We also involve our customers in these activities and furnish our parcels with information that the packaging is 100% recyclable.

#### Total Weight of Waste by Type and Disposal Method

→ 04

IN METRIC TONS*	2017	2016**
<b>Non-hazardous waste</b>	<b>17,693</b>	<b>16,312</b>
<b>Waste disposal method</b>		
Recycling	15,821	14,979
Reuse	58	329
Recovery, including energy recovery	864	–
Waste incineration	950	1,005
<b>Hazardous waste</b>	<b>1</b>	<b>55</b>
<b>Total</b>	<b>17,694</b>	<b>16,367</b>

GRI 306-2

GRI 103-1/-2/-3 MA Materials  
GRI 103-1/-2/-3 MA Effluents  
and Waste  
GRI 301-3


\*) The waste disposal method was determined with information provided by our waste disposal contractors.

\*\*) This value is 138 metric tons lower than the one reported in the annual report 2016. This is mainly due to an improvement in the calculation methodology.

## 1.2.5 do.CONNECT

## do.CONNECT

→ 11

Impact vision	Aspired outcome	Targets	Timing
<b>Reimagine how corporations contribute to societal challenges</b> 	<b>Zalando has leveraged its unique mix of resources to scale existing solutions for social impact</b>	Through cross-sector alliances, we offer support and visibility for 100+ solutions that contribute to diverse communities or value chain transparency.	2019
		Contribute substantially to scale at least five solutions with the potential to increase value chain transparency in the fashion industry.	2020
	<b>Zalando employees have become changemakers in their communities</b>	20% of Zalandos engage in Corporate Citizenship activities.	2020
		Leveraging the professional expertise of our employees by increasing the share of pro bono shifts in our volunteering mix.	2020
		Empower 100+ Zalandos to bring powerful citizenship activities to their neighborhoods.	2020
	<b>We pioneered ways to increase impact orientation in corporate citizenship</b>	Provide access for NGO's to capacity building on collaborating with corporates.	2018
		Test different ways to measure Zalandos societal impact.	2019

The challenges that our society is facing are large and complex, and companies can and have to reimagine how they want to contribute solving them. As a good corporate citizen, we want to get involved in this process in the same professional way as we do in our daily business. Together with experts from all parts of society, we get engaged by contributing our skills, networks, and resources. This becomes particularly meaningful in the areas in which we are well versed. In the past two years we started building the networks and infrastructure that are necessary to strategically invest an average of 1% of our EBT in our social impact from 2018 onwards focusing on two strategic areas. 1.) We will continue engaging in the communities around us in order to be a good neighbor. 2.) At the same time we want to use our expertise in tech and fashion to start taking a systemic role in our industry and invest strategically in solutions that increase transparency and sustainability in our industry. Building an accelerator for this purpose will be a major focus topic in our community engagement in 2018.

GRI 413-1



zln.do/en-neighborhood

## Strengthening Diverse and Inclusive Communities

Many countries have already identified powerful solutions for refugee integration, some of them even have decades of experience with them. In 2016, we invited successful social entrepreneurs from around the world to our Hello Festival in Berlin and empowered ten local organizations to transfer their valuable know-how on refugee integration to Germany. The "Hello Accelerator" was designed as a one-year support program to those organizations, providing them with trainings, mentoring and on top of EUR 285,000 project funding to pilot knowledge transfer and replication. At the core were a cross-sectoral approach and the idea of scaling solutions with a proven track record instead of reinventing the wheel – this social Zalando principle was awarded with the German CSR award 2017 in the category Successful Measures for Refugee Integration. We are delighted about the recognition of our social engagement and take it as an additional motivation to continue our path because the challenge of long-term integration has by no means been solved yet.

GRI 103-1/-2/-3 MA  
Local Communities



Just like our employees from more than 100 different countries, refugees are now also contributing to the diversity and dynamic environment of our local communities. After initially finding shelter in emergency and large-scale accommodation, many of them have now settled in the neighborhoods. That is why we will not scale back our commitment to integration, but focus on strengthening diverse and inclusive communities from now on. In a first step, we supported the first German Neighborhood Award of the nebenan.de foundation in 2017. More than 1,300 applications provided impressive testimony to the local engagement.

None of this would be possible without the engagement of our employees. They get actively involved around our locations and can have two days volunteering time off for this each year. In 2017, 954 Zalando provided support for 60 initiatives in 816 shifts. We are collaborating with the social business Vostel to ensure that we create a win-win situation: a great experience for our employees and an actual impact for the participating project. For this Vostel, collects feedback and data on the impact of our volunteering program.

#### Feedback on Our Volunteering Program

→ 12



In addition to measuring the impact of our activities, it is particularly important to us to increase the number of employees that volunteer. We want 20% of Zalando to be engaged in corporate citizenship activities by 2020 and increase the share of pro bono shifts compared to 2017.

Corporate volunteering can be a great way to connect people and causes that would not necessarily meet otherwise. Beyond the personal encounters, social initiatives value the time and professional expertise Zalando employees offer. That is why a growing number of Zalando contribute their professional skills to a good cause free of charge – pro bono. In 2017 we organized a Hack Night in which our employees worked a whole night on challenges of six social initiatives. For example, a website was optimized for search engines and a campaign concept was developed. Furthermore, Zalando provided advice to the Hello Accelerator participants on subjects such as communication strategies, management skills, and team building. Zalando has additionally held workshops for refugees on programming and job application skills. Finally, employees passed on their knowledge of social media communication and customer-friendly design of sales rooms for a conference of the clothing stores of the Red Cross.


[zln.do/en-hack-night](https://zln.do/en-hack-night)

### Increasing Transparency in the Supply Chain

Over the past years we learned a great deal from our engagement in integration and a variety of different topics in the communities we are part of. Whereas we want to continue to contribute to those local causes as all neighbors should, we want to leverage our professional experience and networks for societal challenges too. The biggest impact we can have is where our core competences meet: fashion and technology. We believe that we need to use new technologies to increase transparency in our industry dramatically, and we are determined to find our role in accelerating this process for the good of all.

In the course of 2017, we created a watch list of promising solutions that use technology to increase transparency in supply chains and started having conversations with experts and social innovators from the field. We got inspired by their approaches and listened to their needs to identify potential ways we can contribute to their impact story. Although we are only at the beginning of a new learning journey, we are already convinced of the potential of the solutions and have therefore already begun to develop the infrastructure for our own support program, which we will launch in 2018. The program will systematically identify social innovators and their solutions and support them in scaling their impact.

As a first step, we became a partner of the Plug and Play – Fashion for Good accelerator that concentrates on finding, investing in, and bringing much-needed sustainability innovations to the market. In only one year, Fashion For Good has already built a pipeline of more than 400 startups that innovate in all parts of the supply chain. We are proud to join this industry initiative, teaming up with the C&A Foundation, Kering, and Galeries Lafayette. The challenges we face as an industry are too big to be solved by single stakeholders, so we hope to see even more partners joining us in the future.

In 2018, we will grow our investment of time, funding and expertise and team up with our business partners and leading stakeholders to help the most promising solutions to grow their impact significantly.



## Dear Shareholders,

The 2017 fiscal year was another successful year for Zalando. Thanks to the strong focus on the customers' needs, the extension of business partner services as part of the implementation of the platform strategy and the continued investments in the logistics and technology infrastructure, Zalando again delivered on its promise of profitable growth. The company is well positioned to continue its growth path under its purpose to "Reimage fashion for the good of all" and the aim to build long-term value, this year and in the years to come.

### Consultation and Monitoring

The Supervisory Board duly performed its duties in accordance with statutory requirements, the Articles of Association, the Supervisory Board's Rules of Procedure as well as the German Corporate Governance Code. It received regular and detailed written and oral reports on the intended business policies, any material issues regarding financial, investment, and personnel planning as well as the progress of business and risks and opportunities. In particular, the Management Board consulted the Supervisory Board on the group's strategy. The Supervisory Board was directly



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## 1.3 REPORT OF THE SUPERVISORY BOARD

**The Supervisory Board – from left to right:**

**Dylan Ross** Member of the Supervisory Board until January 2018,  
**Lothar Lanz** Chairperson of the Supervisory Board, chairperson of the nomination committee, member of the audit committee,  
**Jørgen Madsen Lindemann** Member of the Supervisory Board, chairperson of the remuneration committee, member of the audit committee, member of the nomination committee,  
**Beate Siert** Member of the Supervisory Board, member of the remuneration committee,  
**Dominik Asam** Member of the Supervisory Board, chairperson of the audit committee,  
**Alexander Samwer** Member of the Supervisory Board, member of the remuneration committee,  
**Konrad Schäfers** Member of the Supervisory Board, member of the audit committee,  
**Shanna Prevé** Member of the Supervisory Board, member of the remuneration committee,  
**Anders Holch Povlsen** Deputy chairperson of the Supervisory Board, member of the nomination committee

involved in all material decisions. Transactions requiring approval were presented by the Management Board.

### Meetings of the Supervisory Board and Its Committees

The plenum of the Supervisory Board held six meetings in fiscal year 2017. The audit committee held four meetings, the remuneration committee held seven meetings and the nomination committee held two meetings. In addition, the Supervisory Board passed 34 circular resolutions. The Supervisory Board and its committees also convened wholly or partly without the Management Board as necessary to deliberate on items that pertained to the Management Board or required internal discussion among Supervisory Board members alone. The plenum of the Supervisory Board was informed about the results of meetings of the committees at its subsequent plenary meetings. Shanna Prevé was prevented from attending one extraordinary meeting, and Kai-Uwe Ricke was prevented from attending one ordinary meeting of the Supervisory Board. The other members attended all meetings of the Supervisory Board and their respective committee meetings.

## Overview of Plenary and Committee Meetings and Attendance on an Individual Basis in Fiscal Year 2017

→ 05

	Tenure	Plenum	Audit committee	Remuneration committee	Nomination committee
Dominik Asam	Since May 2017	4 / 4	2 / 2	–	–
Lorenzo Grabau	Until May 2017	2 / 2	2 / 2	2 / 2	–
Lothar Lanz	Since February 2014	6 / 6	4 / 4	2 / 2	2 / 2
Jørgen Madsen Lindemann	Since May 2016	6 / 6	2 / 2	5 / 5	
Anders Holch Povlsen	Since December 2013	6 / 6	–	–	2 / 2
Shanna Prevé	Since May 2017	3 / 4	–	5 / 5	–
Kai-Uwe Ricke	Until May 2017	1 / 2	2 / 2	–	–
Dylan Ross	Since June 2015	6 / 6	–	–	–
Alexander Samwer	Since December 2013	6 / 6	–	7 / 7	2 / 2
Konrad Schäfers	Since June 2015	6 / 6	4 / 4		–
Beate Siert	Since June 2015	6 / 6	–	7 / 7	–

### Plenary Meetings

The plenum of the Supervisory Board addressed in each of its ordinary quarterly meetings the analysis and discussion of the management reports on the course of business and the company's strategy as well as the capital markets developments. The chairpersons of the committees of the Supervisory Board reported regularly to the full Supervisory Board on the activities of each of the committees. In addition, the Supervisory Board dealt with the following focus areas:

At its ordinary meeting on February 24, 2017, the Supervisory Board dealt with the financial statements and consolidated financial statements for 2016 presented by the Management Board. In accordance with the recommendations of the audit committee, the Supervisory Board adopted the financial statements for 2016 and approved the consolidated financial statements for 2016. It followed the Management Board's profit utilization proposal for financial year 2016. In addition, the Supervisory Board adopted a resolution regarding its report for the financial year 2016 and dealt with the agenda for the annual general meeting 2017. The Supervisory Board also discussed the results of its 2016 efficiency evaluation, which was carried out by way of a questionnaire focusing on the supply of information to the Supervisory Board, the structure and efficiency of meetings, the set-up and procedures of the Supervisory Board's committees as well as the composition of the Supervisory Board and its succession planning. No noteworthy shortcomings were identified.

At its ordinary meeting on May 5, 2017, the Supervisory Board dealt in particular with the preparation of the annual general meeting 2017 as well as with the changes to the German Corporate Governance Code and the associated implications. It prepared a profile of skills and expertise for the entire Supervisory Board. In addition, the Supervisory Board discussed the female representation target for the Management Board and the Supervisory Board according to Section 111 (5) AktG and determined the target of 0% for the Management Board and 22% for the Supervisory Board, in each case within the time limit until June 30, 2022.

At its meeting on May 31, 2017, following the annual general meeting and the election of the shareholder representatives, the Supervisory Board mainly dealt with the election of Lothar Lanz as the chairperson as well as the election of Anders Holch Povlsen as the deputy chairperson of the Supervisory Board and resolved on the new composition of the committees of the Supervisory Board, which can be found in the Corporate Governance Report on page 52.



[zln.do/  
en-annual-general-meeting](https://zln.do/en-annual-general-meeting)

At its extraordinary meeting on June 27, 2017, the Supervisory Board discussed the introduction of a new incentive program for certain key employees of the Company proposed by the Management Board.

As in previous years, the Supervisory Board paid particular attention to the company's strategy and decided to again hold an annual strategy session. The ordinary meeting on August 29, 2017, was specifically devoted to the strategy of the company which was presented by the Management Board and discussed at length with the Supervisory Board members. At the end of the meeting, the Supervisory Board members attended a training session on rights and duties of the Supervisory Board conducted by an external legal advisor.



[zln.do/en-strategy](https://zln.do/en-strategy)

At its ordinary meeting on December 4, 2017, the Supervisory Board dealt primarily with and discussed the budget for the financial year 2018. Besides, it discussed its own diversity concept as well as the application of a specific diversity concept for the Management Board. The Management Board and the Supervisory Board jointly resolved on the declaration of conformity with the German Corporate Governance Code. The Supervisory Board also discussed the format of the annual self-assessment of its efficiency. The examination was performed based on questionnaires. Every member of the Supervisory Board was asked to provide feedback on the work of the full board as well its committees and the cooperation with and information by the Management Board.

Based on the law and the requirements laid down in the Articles of Association and the Management Board's Rules of Procedure, certain transactions and measures require the prior approval of the Supervisory Board. These transactions were presented to the Supervisory Board for its approval. The Supervisory Board addressed inter alia the construction of new logistic sites in Poland and Italy, a lease agreement for new office space in Berlin, the acquisition of the multi-channel basketball retailer KICKZ and the creation of the joint venture FashionTrade to develop the B2B online fashion wholesale marketplace.

### Audit Committee

The audit committee analyzed the annual financial statements 2016 and the consolidated financial statements 2016, including the combined management report for 2016, as well as the quarterly statement for the first quarter, the half-year report and quarterly statement for the third quarter of 2017. The audit committee regularly reviewed and discussed the focus of the audit, the status reports on GRC (Governance, Risk & Compliance), litigation and the work of the internal audit, the treasury reports and capital structure considerations and addressed the new requirements for the non-financial reporting and the approval of non-audit services. The audit committee was involved in the preparation of the Supervisory Board's proposal to the annual general meeting 2017 for the appointment of the auditor and group auditor. The chairperson of the audit committee conferred with the auditors on the audit focus.

### Remuneration Committee

The remuneration committee dealt 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. Besides, the remuneration committee addressed the introduction and status updates of employee incentive programs.

### Nomination Committee

The nomination committee dealt with the preparation of the proposals of the Supervisory Board to the annual general meeting regarding the election of the members of the Supervisory Board.

### Conflicts of Interest

No conflicts of interest of any Supervisory Board member occurred in the context of the work of the Supervisory Board. To avoid the appearance of a potential conflict of interest, Supervisory Board member Anders Holch Povlsen decided to abstain from participating in the discussion and the resolution regarding the creation of the joint venture FashionTrade between the Bestseller group and the Zalando group to develop the B2B online fashion wholesale marketplace.

### Audit and Ratification of the Annual Financial Statements and Consolidated Financial Statements

The Management Board forwarded the annual financial statements and the consolidated financial statements for fiscal year 2017, the combined management report and the non-financial report for ZALANDO SE and the group as well as the proposal of the Management Board for the appropriation of profit to the chairperson of the Supervisory Board and the chairperson of the audit committee immediately upon their completion in February 2018 and before they were finally attested. The annual financial statements for 2017 and the consolidated financial statements for 2017, as well as the combined management report for the company and the group were examined by the auditor who rendered an unqualified audit opinion on them.



Further Information  
Combined Management  
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The financial statements and the auditor's reports were sent to the members of the Supervisory Board.

In a first step, the audit committee closely examined the financial statements and the proposal for the appropriation of profit in the presence of the auditor. The auditor reported on the most significant matters of the audit. Thereafter, the Supervisory Board discussed the financial statements, the non-financial report and the proposal for the appropriation of profit in detail.

The Supervisory Board approved the audit results. It examined the annual financial statements and consolidated financial statements, the combined management report and the non-financial report for ZALANDO SE and the group as well as the proposal of the Management Board for the appropriation of profit. The findings of the preliminary audit conducted by the audit committee and the Supervisory Board's own findings corroborate the findings of the external auditor. Based on this final review, the Supervisory Board raised no objections to the audit. The Supervisory Board has therefore approved and adopted the annual financial statements for 2017 and approved the consolidated financial statements for 2017 and the non-financial report. The Supervisory Board concurred with the proposal of the Management Board for the appropriation of profit (to be carried forward to new account), in consideration of particularly the company's annual result, liquidity, financial planning and strategy.

### Corporate Governance

The annual declaration of conformity was issued by the Management Board and the Supervisory Board in December 2017. The complete text of the declaration can be found in section 1.4.1 on page 52. The declarations are made permanently available under the section on Corporate Governance on the company's website.

More information on corporate governance can be found in the Corporate Governance Report and associated declaration on page 52. With regard to the remuneration structure for the members of the Management Board for fiscal year 2017 and to avoid repetition, please see the Remuneration Report on page 66.



Further Information  
Consolidated Financial  
Statements p. 134



[zln.do/en-governance](https://zln.do/en-governance)



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## Personnel Matters

The term of office of the shareholder representatives in the Supervisory Board expired at the end of the general meeting on May 31, 2017. Lorenzo Grabau and Kai-Uwe Ricke did not seek re-election. The Supervisory Board would like to thank Lorenzo Grabau and Kai-Uwe Ricke for their valuable contributions to the work of the Supervisory Board and the trust-based cooperation.

The annual general meeting 2017 re-elected Lothar Lanz, Jørgen Madsen Lindemann, Anders Holch Povlsen and Alexander Samwer and newly elected Dominik Asam and Shanna Prevé as members of the Supervisory Board. All members were elected until the end of the general meeting that resolves on the discharge for fiscal year 2018. Lothar Lanz was re-elected as chairperson of the Supervisory Board, and Anders Holch Povlsen was elected deputy chairperson of the Supervisory Board.

On January 15, 2018, the term of office of Dylan Ross, one of the employee representatives on the Supervisory Board, expired due to him leaving the Zalando group. The Supervisory Board would like to also thank Dylan Ross for his commitment and dedication to the work on the Supervisory Board. Based on the legal provisions and the Agreement on the Participation of Employees in ZALANDO SE of March 17, 2014, the company's SE works council is currently conducting an election procedure in order to determine a successor for Dylan Ross as well as a substitute. The SE works council will propose a new member and a corresponding substitute member both to be appointed by the ordinary general meeting of ZALANDO SE scheduled for May 23, 2018. The general meeting is bound by these proposals.

The Supervisory Board would like to thank the Management Board and all employees of the company for their high level of commitment and the excellent achievements in fiscal year 2017.

Berlin, February 26, 2018

Lothar Lanz

The following overview lists all of the companies and enterprises in which the members of the Supervisory Board of ZALANDO SE currently are members of a statutory supervisory board of the companies or members of a comparable controlling body in Germany or abroad.

#### Current and Past Seats

[→ 06](#)

Name of Supervisory Board Member	Mandates pursuant to Section 125 (1) Sentence 5 AktG
Dominik Asam	<p>Infineon Technologies Austria AG, Villach, Austria (member of the Supervisory Board)</p> <p>Infineon Technologies Americas Corp., Delaware, USA (member of the Board of Directors)</p> <p>Infineon Technologies Asia Pacific Pte., Ltd., Singapore (member of the Board of Directors)</p> <p>Infineon Technologies China Co., Ltd., PRC (member of the Board of Directors)</p> <p>Until May 2017: EPCOS AG (member of the Supervisory Board)</p>
Lorenzo Grabau (until May 31, 2017)	<p>Qliro Group AB, Sweden (member of the Board of Directors)</p> <p>Millicom International Cellular S.A., Luxembourg (member of the Board of Directors)</p> <p>Tele2 AB, Sweden (member of the Board of Directors)</p>
Lothar Lanz	<p>Axel Springer SE (member of the Supervisory Board)</p> <p>Bauwert AG (member of the Supervisory Board)</p> <p>Home24 AG (member of the Supervisory Board, chairperson)</p> <p>Kinnevik AB (member of the Board of Directors)</p> <p>TAG Immobilien AG (member of the Supervisory Board, deputy chairperson)</p> <p>Since January 2018: Dermapharm Holding SE, Grünwald (member of the Supervisory Board)</p>

## 1.3 REPORT OF THE SUPERVISORY BOARD

→ 07

Name of Supervisory Board member	Mandates pursuant to Section 125 (1) Sentence 5 AktG
Anders Holch Povlsen*	<p>Intervare A/S 25169158, Denmark (member of the Board of Directors, chairperson)</p> <p>Nemlig.com A/S, Denmark (member of the Board of Directors, chairperson)</p> <p>J.Lindeberg AB 556533-7085, Sweden (member of the Board of Directors)</p> <p>J.Lindeberg Holding AB, Sweden (member of the Board of Directors)</p> <p>J.Lindeberg IP HK Limited, Hong Kong (member of the Board of Directors)</p> <p>J.Lindeberg Holding (Singapore) Pte. Ltd., Singapore (member of the Board of Directors)</p> <p>JL Schweiz AG, Switzerland (member of the Board of Directors, chairperson)</p>
Shanna Prevé	–
Kai-Uwe Ricke (member until May 31, 2017)	<p>United Internet AG, Montabaur (member of the Supervisory Board)</p> <p><i>Mandates in affiliated companies:</i></p> <p>Until March 2017: United Internet Ventures AG, Montabaur (member of the Supervisory Board)</p> <p>1&amp;1 Internet SE, Montabaur (member of the Supervisory Board)</p> <p>1&amp;1 Telecommunication SE, Montabaur (member of the Supervisory Board)</p> <p>1&amp;1 Mail &amp; Media Applications SE, Montabaur (member of the Supervisory Board, chairperson)</p> <p>Since October 2017: Drillisch AG (member of the Supervisory Board, deputy chairperson)</p> <p>Until January 2018: EUN Holdings LLP, Delaware (member of the Board of Directors)</p> <p>Delta Partners, Dubai (member of the Board of Directors)</p> <p>SUSI Partners AG, Switzerland (member of the Board of Directors)</p> <p>Virgin Mobile CEE B.V., Netherlands (member of the Board of Directors)</p> <p>Since May 2017: STRATO AG (member of the Supervisory Board)</p> <p>Since November 2017: Cash Credit Limited, Cayman Islands (member of the Board of Directors)</p>
Jörgen Madsen Lindemann**	Turtle Entertainment GmbH (member of the Advisory Board)
Alexander Samwer	Home24 AG, Germany
Beate Siert	–
Dylan Ross	–
Konrad Schäfers	–

\*) Mr. Povlsen is also member of Boards of Directors at various foreign group entities of the Bestseller group as well as foreign entities with a family connection.

\*\*) Mr. Lindemann is also member of Boards of Directors at various foreign group entities of the Modern Times Group MTG.

The Management Board members are also member of an executive body at the following companies:

#### Current and Past Seats of the Management Board

[→ 08](#)

Name of Management Board member	Mandates Pursuant to Section 125 (1) Sentence 5 AktG
David Schneider	Anatwine Ltd., UK (member of the Board of Directors)  Trivago N.V., Germany (member of the Supervisory Board, since December 2016)
Robert Gentz	–
Rubin Ritter	–

## 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.<sup>10</sup>

### 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.



[zln.do/en-governance](https://zln.do/en-governance)

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.

<sup>10)</sup> The statements on corporate governance in accordance with Sections 289f and 315d 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 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-learning) 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.



[zln.do/en-principles](https://zln.do/en-principles)

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



[zln.do/en-management-board](https://zln.do/en-management-board)

### 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

→ 09


[zln.do/en-supervisory-board](https://zln.do/en-supervisory-board)

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)

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Lothar Lanz

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Jørgen Madsen Lindemann (member since May 31, 2017)

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

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Lorenzo Grabau (member until May 31, 2017)

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Konrad Schäfers

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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)

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Lothar Lanz (member until May 31, 2017)

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

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Shanna Prevé (member since May 31, 2017)

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Alexander Samwer

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Beate Siert

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## 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)

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

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Jørgen Madsen Lindemann (member since May 31, 2017)

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Anders Holch Povlsen

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Alexander Samwer (member until May 31, 2017)

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### 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  
and Equal Opportunity  
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.



[zln.do/en-IR](https://zln.do/en-IR)

### 1.4.6 Takeover Law Disclosures Pursuant to Sections 289a (1), 315a (1) HGB and Explanatory Report<sup>11</sup>

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

<sup>11)</sup> 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 Report<sup>12</sup>

#### 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

<sup>12)</sup> 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

→ 13

	Number	Weighted average exercise price (in EUR)
<b>Outstanding options as of Jan 1, 2016</b>	<b>2,730,200</b>	<b>5.65</b>
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	–
<b>Outstanding options as of Dec 31, 2016</b>	<b>2,543,200</b>	<b>5.65</b>
<b>Options vested as of Dec 31, 2016</b>	<b>1,870,000</b>	<b>5.65</b>
<b>Outstanding options as of Jan 1, 2017</b>	<b>2,543,200</b>	<b>5.65</b>
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	–
<b>Outstanding options as of Dec 31, 2017</b>	<b>1,851,300</b>	<b>5.65</b>
<b>Options vested as of Dec 31, 2017</b>	<b>1,486,650</b>	<b>5.65</b>

\*) 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)
<b>Outstanding options as of Jan 1, 2016</b>	<b>9,817,500</b>	<b>15.63</b>
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	–
<b>Outstanding options as of Dec 31, 2016</b>	<b>9,817,500</b>	<b>15.63</b>
<b>Options vested as of Dec 31, 2016</b>	<b>5,856,840</b>	<b>15.63</b>
<b>Outstanding options as of Jan 1, 2017</b>	<b>9,817,500</b>	<b>15.63</b>
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	–
<b>Outstanding options as of Dec 31, 2017</b>	<b>9,817,500</b>	<b>15.63</b>
<b>Options vested as of Dec 31, 2017</b>	<b>7,809,120</b>	<b>15.63</b>

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			
	2017	2017 (min)	2017 (max)	2016
Fixed compensation	583,065	583,065	583,065	600,000
Fringe benefits	40,050	40,050	40,050	48,023
<b>Total</b>	<b>623,115</b>	<b>623,115</b>	<b>623,115</b>	<b>648,023</b>
One-year variable compensation	0	0	0	0
Multi-year variable compensation	0	0	0	0
<b>Total</b>	<b>623,115</b>	<b>623,115</b>	<b>623,115</b>	<b>648,023</b>
Pension expense	0	0	0	0
<b>Total</b>	<b>623,115</b>	<b>623,115</b>	<b>623,115</b>	<b>648,023</b>

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

→ 16

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

\*) 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
<b>Total</b>	<b>775,000</b>	<b>585,343</b>

## 1.5 The Zalando Share – 2017 in Review

- Positive business development reflected in Zalando share performance
- High capital market awareness: 28 covering research analysts across Europe and US, regularly reporting on Zalando
- Increase in free float to 58.31% (YE 2016: 49.47%)

### 1.5.1 Capital Markets and Share Price Development

The development of international capital markets continued to be driven by the low-interest rate environment in 2017. Compared to other asset classes, equity capital markets remained highly attractive to investors, which was reflected in the positive development of international stock indices, including the German index DAX. The latter reached a new all-time high of 13,479 points in November. Political events, such as federal elections in Germany or France, uncertainty over Catalan independence and the tense relationship between the US and North Korea, were frequently discussed topics on the trading floors.

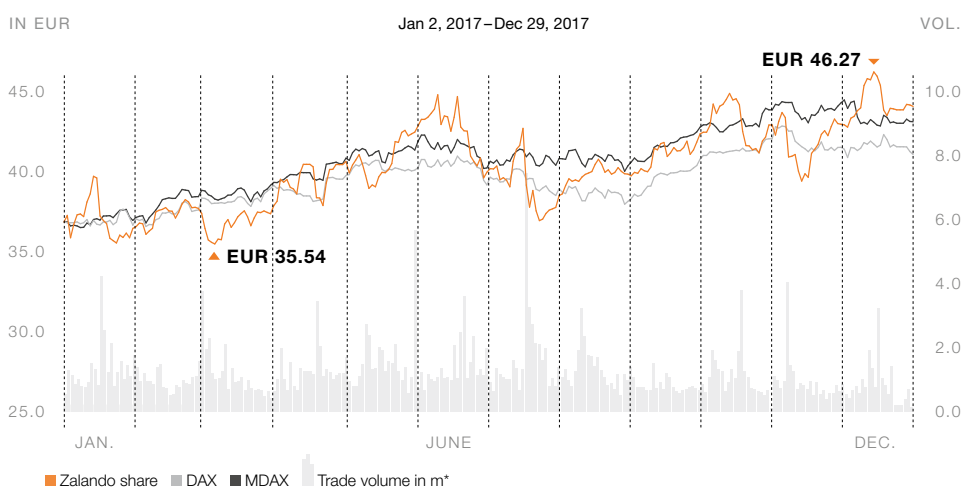
The Zalando share started 2017 at EUR 36.44 and developed positively in the first quarter, in line with German stock markets. A rise in government bond yields and a related appreciation of the euro weighed on the German stock market in the summer months. Consequently, the DAX traded at its summer low in August at 11,946 points. This trend was also reflected in the development of the Zalando share and resulted in a temporary low at the end of July with a share price of EUR 36.99. This was followed by a recovery period of the German stock market and a positive stock price development of the Zalando share, marked by the all-time high of EUR 46.27 on December 13. Zalando closed the trading year at EUR 44.12. The market capitalization as of December 31 amounted to EUR 10.9bn (basic).



[zln.do/en-share](https://zln.do/en-share)

#### Development of the Zalando Share, DAX and MDAX

→ 13



\*) Based on trading on XETRA, German stock exchanges, electronic communication networks ("ECNs") and over-the-counter ("OTC") trading.  
Source: Bloomberg

## 1.5 THE ZALANDO SHARE – 2017 IN REVIEW

## Share Performance 2017

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Opening price on Jan 2, 2017	EUR 36.44
High 2017 (Dec 13)	EUR 46.27
Low 2017 (March 7)	EUR 35.54
Closing price on Dec 29, 2017	EUR 44.12
Performance 2017	21.1%
Average daily trading volume 2017 (shares)*	1.3m
Average daily trading volume 2017 (EUR)*	EUR 50.8m

\*) Based on trading on XETRA, German stock exchanges, electronic communication networks ("ECNs") and over-the-counter ("OTC") trading.  
Source: Bloomberg

## The Zalando Share

→ 19

Type of shares	Ordinary bearer shares with no par value ("Stückaktien")
Share capital	EUR 247,384,898
Total numbers of shares outstanding (Dec 31, 2017 )	247,384,898
ISIN	DE000ZAL1111
WKN	ZAL111
Bloomberg	ZAL GR
Thomson Reuters	ZALG.F

## 1.5.2 Shareholder Structure: Increase in Free Float

Free float as defined by Deutsche Börse AG amounted to 58.31%<sup>13</sup> at year-end (year-end 2016: 49.47%) due to Zerena GmbH reduction below the five percent threshold. Apart from that, the stake of Anders Holch Povlsen increased slightly from 10.05% to 10.09% in April, and Allianz Global Investors GmbH increased its stake to 3.02% in September, exceeding the reporting threshold of 3%.

13) In this annual report, we report the free float as defined by Deutsche Börse Group. In the 2016 annual report, we used a different definition and reported the free float using the 3% threshold method. The 2017 free float would translate to 31.63% applying the method from the prior year (prior year-end: 30.90%).

## Shareholder Structure in Percent as of Dec 31, 2017\*

→ 14

GRI 102-5

IN %

**31.63**

Other shareholders

**31.70**

Verdere S.à r.l.

**3.02**

Allianz Global Investors GmbH

**3.02**

Vanguard World Funds

**10.09**

Anders Holch Povlsen

**3.70**

Founders\*\*

**6.86**

Baillie Gifford &amp; Co.

**4.98**Tengelmann Verwaltungs-  
und Beteiligungs GmbH**4.99**

Zerena GmbH

\*) Voting rights held directly or by a subsidiary. The overview reflects the notifications pursuant to Section 21 WpHG (BaFin-notifications) and Section 26a WpHG (change in total voting rights) received by ZALANDO SE as of September 28, 2017.

\*\*) Aggregate shareholding of the founders.

## 1.5.3 Research Coverage

Similar to 2016, by the end of 2017 the Zalando share was covered by 28 research analysts from Germany and abroad, resulting in a high capital market awareness of the Zalando share.

## Institutions That Cover Zalando

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Arete	DZ BANK AG	Pareto Securities
Baader Bank	Equinet Bank	Quirin Bank
Bankhaus Lampe	Exane BNP Paribas	RBC Capital Markets
Barclays	Goldman Sachs	Redburn
Berenberg	Handelsbanken	Société Générale
Bryan, Garnier & CO	Hauck & Aufhäuser	Stifel
Citi	J. P. Morgan Cazenove	UBS
Commerzbank	Kepler Cheuvreux	Warburg
Credit Suisse	Macquarie Research	
Deutsche Bank	Morgan Stanley	

### 1.5.4 Stock Indices

The Zalando share belongs to various key indices (selection), thereby raising the visibility and trading volume in the Zalando share.

Selection of Stock Indices

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Index	Region
MDAX	Germany
STOXX Europe 600	Europe
STOXX Europe Mid 200	Europe
FTSE4GOOD	Global

### 1.5.5 Third Annual General Meeting

On May 31, 2017, ZALANDO SE hosted its third annual general meeting at Westhafen Event & Convention Center in Berlin. Shareholders in attendance, representing 89.2% of the voting share capital, approved all proposed resolutions put forward by the company's Management Board and Supervisory Board. Lothar Lanz, Jørgen Madsen Lindemann, Anders Holch Povlsen and Alexander Samwer were re-elected as members of the Supervisory Board. Shanna Prevé and Dominik Asam were elected as new members of the Supervisory Board. Lorenzo Grabau and Kai-Uwe Ricke did not seek re-election.



[zln.do/en-annual-general-meeting](http://zln.do/en-annual-general-meeting)



From left to right:

**Rubin Ritter** member of the Management Board, **Robert Gentz** Co-founder and member of the Management Board and **David Schneider** Co-founder and member of the Management Board during the annual general meeting 2017.

### 1.5.6 Constant Exchange with Capital Markets

A key element of our external communication is a continuous and transparent dialogue with all capital market participants. We fostered and deepened existing relationships through extensive discussions at numerous conferences and roadshows about the Zalando strategy, business model and value drivers.

In fiscal year 2017, our Management Board, our Senior Vice President Finance and the Investor Relations Team spent 27 days on roadshows and attended nine national and international conferences in major European and North American financial hubs. We also granted interested analysts and investors access and insights into our tech and fashion hubs in Berlin as well as the fulfillment centers in Erfurt and Mönchengladbach.

Our third Capital Markets Day took place on June 20, 2017, in our Berlin fashion hub. Management Board and senior management presented our strategic initiatives and the current course of business to more than 100 participating investors and analysts. In addition, the participants had the opportunity to visit our fulfillment center in Mönchengladbach the day before. All presentations and audio webcasts are available on our Investor Relations website.



[zln.do/en-publications](https://zln.do/en-publications)



Zalando showcasing fashion collection with catwalk during Capital Markets Day 2017.