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Report of the Management Board regarding agenda item 7 of the General Meeting

Agenda item 7 regards the resolution on an authorization of the Supervisory Board to grant subscription rights for shares of the Company (hereinafter “**Stock Options**”) to members of the Company’s Management Board and the creation of a conditional capital to service such Stock Options. In this respect, the Company’s Management Board submits the following report to the General Meeting:

The proposed authorization has a term until 31 December 2019 and comprises the granting of up to 2,250,000 Stock Options conveying rights to subscribe for up to 1,522,269 bearer shares with no-par value of the Company. To service the subscription rights under the Stock Options, it is also proposed to conditionally increase the Company’s share capital by up to EUR 1,522,269.00 (Conditional Capital 2019). This corresponds to approximately 0.61 % of the Company’s share capital existing at the time of the publication of the convocation to this General Meeting in the Federal Gazette (*Bundesanzeiger*) and allows for the issuance of up to 1,522,269 bearer shares with no-par value required to fully service the subscription rights.

The background of the proposed authorization and the related Conditional Capital 2019 is as follows:

Each of the members of the Management Board Robert Gentz, David Schneider and Rubin Ritter have been granted 1.75 million option rights under the so-called Long-Term Incentive 2018 (hereinafter “**LTI 2018**”) as variable long-term remuneration for their five year term of office commenced on 1 December 2018 on the basis of the new remuneration system approved by last year’s General Meeting. The performance of such option rights depends on the achievement of long-term growth targets as well as the share price development of the Company’s shares. For further details of the terms of the LTI 2018, reference is made to the information included in the remuneration report of the Company which is imprinted on pages 61 through 75 of the annual report 2018 and is also available on the internet under <https://corporate.zalando.com/en/investor-relations/publications/annual-report-2018>.

Upon exercise, the option rights granted under the LTI 2018 may be settled, at the election of the Company, in shares or in cash. However, currently, the option rights do not convey own subscription rights for shares of the Company to the beneficiaries. To enable the Company to fulfil parts of the granted option rights also by using new shares from conditional capital, the Supervisory Board shall now be authorized to grant to the aforementioned Management Board members subscription rights for shares which are serviced by a new conditional capital created simultaneously. For each of the aforementioned Management Board members, this regards up to 0.75 million option rights. Therefore, according to the authorization, the granting of Stock Options can be implemented, in particular, by way of subsequently equipping already existing option rights granted under the LTI 2018 to the beneficiaries with subscription rights for shares.

The key terms for the granting of Stock Options under the LTI 2018 are included in the resolution proposal under agenda item 7 of this General Meeting (see under no. 1 therein). By way of the grant of Stock Options, the beneficiaries shall be granted own subscription rights for shares of the Company under the new Conditional Capital 2019. In all other material respects, the key terms for the granting of Stock Options reflect the already existing option terms and conditions of the LTI 2018.

By the authorization to grant Stock Options and the creation of the Conditional Capital 2019, the Company is enabled to service parts of the entitlements under the LTI 2018 with new shares under a conditional capital. With respect to the fulfilment of this part of the option rights, therefore, the Company does not have to use financial resources for the acquisition of treasury shares or a cash payment and, at the same time, is protected against an increase in the value of the option rights due to an increase of the share price. The use of new shares under the Conditional Capital 2019 for the purpose of servicing parts of the options rights granted under the LTI 2018 therefore reduces the risks which may arise for the Company due to market fluctuations and enables in the interest of the Company the servicing of such option rights in a liquidity-efficient manner.

With respect to the shares issued under the Conditional Capital 2019, the shareholders do not have subscription rights. Otherwise, the Conditional Capital 2019 which is intended to service parts of the option rights granted under the LTI 2018, would fail to fulfil its purpose: If subscription rights were granted to the shareholders, the new shares could not, as intended, be issued to the holders of the option rights. When servicing the Stock Options under the LTI 2018 with new shares under the Conditional Capital 2019, the settlement value of the exercised Stock Options is converted, on the basis of the share price at exercise, into a number of shares without the beneficiaries being required to pay the calculatory exercise price (so-called net settlement; see no. 1.f) of the resolution proposal under agenda item 7 for further details). As a result of the net settlement, the maximum number of new shares required for the settlement is much lower than the maximum number of Stock Options to be granted. This way, in the interest of the shareholders, the volume of the proposed Conditional Capital 2019 and the dilution of the shareholding of the existing shareholders in case of a future issuance of new shares is reduced.

As long-term performance-related remuneration component the performance of which depends on the achievement of long-term growth targets as well as the share price development of the Company's shares, the LTI 2018 is in the interest of the Company and the shareholders. For the reasons set out above, in the view of the Management Board and by taking into consideration the interests of the Company and its shareholders, the resolution proposal under agenda item 7 of this General Meeting is, overall, appropriate and reasonable.

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