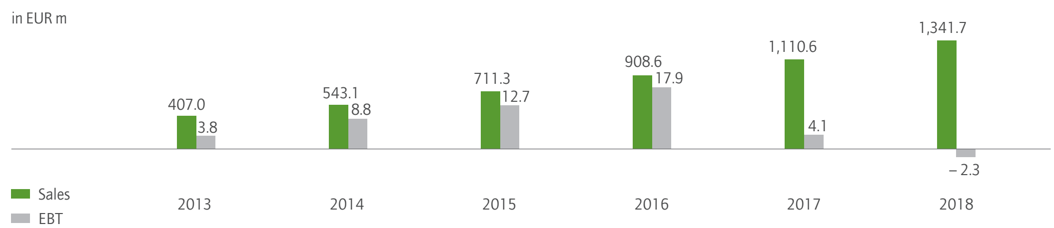
zooplus

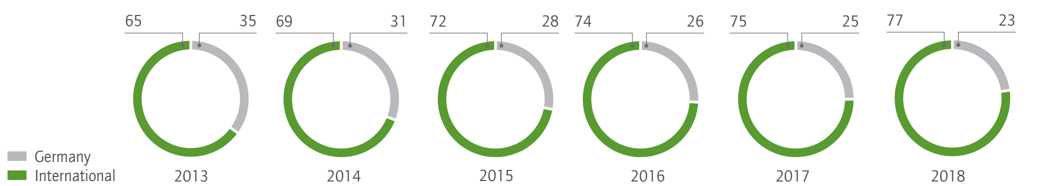
Annual report
2018

Key figures

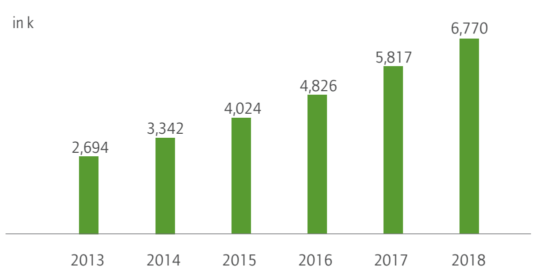
Sales and EBT 2013–2018



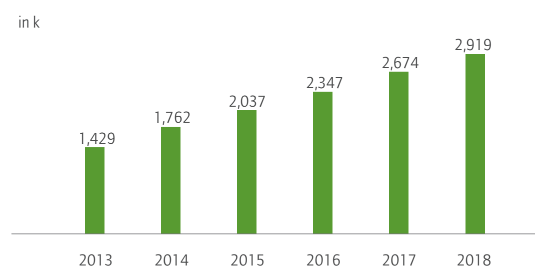
Sales by region in %



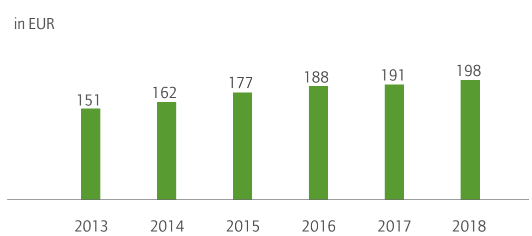
Active customers



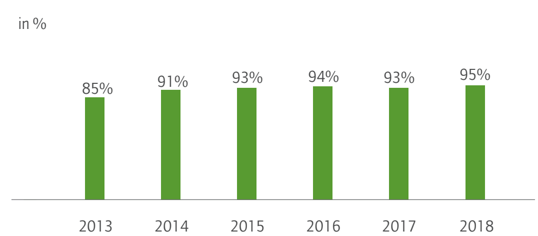
New customers[1]



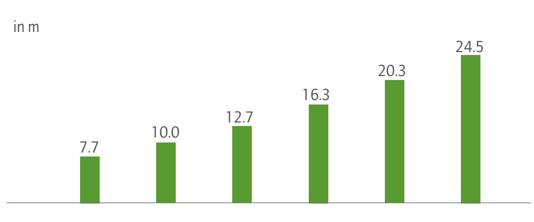
Sales per customer[2]



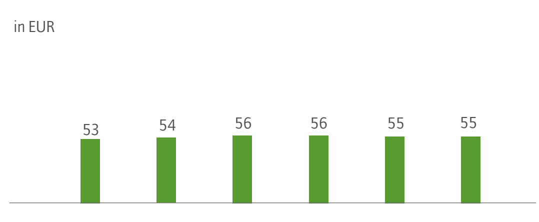
Sales retention rate[3]



Number of orders



Average shopping basket[2]



[1] registered and non-registered new customers (guest access)
[2] net
[3] currency-adjusted sales retention rate

Multi-year performance

		2013	2014	2015	2016	2017	2018
Sales	in EUR m	407.0	543.1	711.3	908.6	1,110.6	1,341.7
Other Income	in EUR m	19.9	27.8	31.3	43.4	52.8	8.6
Cost of materials	in EUR m	– 279.8	– 393.0	– 518.2	– 681.6	– 839.6	– 956.8
Gross margin	in %	31.3 %	27.6 %	27.1 %	25.0 %	24.4 %	28.7 %
EBITDA	in EUR m	4.9	9.9	15.4	19.7	8.8	8.6
EBT	in EUR m	3.8	8.8	12.7	17.9	4.1	– 2.3
EPS – Earnings per share [1]	in EUR	0.29	0.83	1.13	1.63	0.27	– 0.29
Employees	number	253	267	313	386	512	635
Total assets	in EUR m	83.7	138.6	165.3	207.6	239.5	301.8
Inventories	in EUR m	43.7	65.0	74.5	78.8	104.5	107.6
Equity	in EUR m	36.7	86.2	93.2	107.9	111.4	111.1
Equity ratio	in %	43.9 %	62.2 %	56.4 %	52.0 %	46.5 %	36.8 %

[1] Basic EPS

Statement of income Q1–Q4 / 2018

		Q1 / 2018	Q2 / 2018	Q3 / 2018	Q4 / 2018
Sales	in EUR m	322.6	320.2	331.1	367.9
Cost of materials	in EUR m	– 235.2	– 229.4	– 236.3	– 255.8
Gross margin	in %	27.1 %	28.3 %	28.6 %	30.5 %
EBITDA	in EUR m	– 3.6	– 1.3	4.5	9.0
EBT	in EUR m	– 5.5	– 3.7	1.6	5.3

Highlights 2018

Sales rise 21% to EUR 1,342 m

Leading market position in online retailing strengthened further; double-digit sales growth in all 30 local markets

Further increase in customer loyalty

Currency-adjusted sales retention rate rises to 95%

Stabilization of gross margin

Gross margin increases slightly for the first time after several years to 28.7%

Earnings before taxes (EBT) of EUR – 2.3 m in the middle of the guidance range

Earnings influenced by additional investment in competitive appeal, marketing, logistics and personnel

Positive free cash flow of EUR 14.3 m

Strong growth and investment fully funded by continued improvement in working capital

Company profile zooplus AG

zooplus AG, founded in 1999, has been operating for more than 19 years and is today's leading online retailer in Europe for pet supplies. zooplus already ranks as the second largest retailer in terms of sales in the overall European market, which includes both bricks-and-mortar and online sales of pet supplies. The company sells around 8,000 products for the most popular types of pets. The product range includes pet food (dry and wet food and food supplements) and accessories, such as scratching posts, dog beds and baskets and toys in all price categories. zooplus customers not only enjoy an extensive product range and fast and free delivery but also benefit from a variety of interactive content and community offers. zooplus AG has already successfully launched its business model in 30 European countries. This makes zooplus AG the only genuinely pan-European online retailer for pet supplies. Since its initial public offering in 2008, the group's sales have risen from EUR 80 m to a total of EUR 1,342 m in the 2018 financial year.

Pet supplies are a major market segment in the European retail landscape. Currently, gross sales of pet supplies and accessories in Europe amounted to around EUR 26 bn. Because of the higher population and progressive humanization of pets in a majority of countries, the growth of the overall market is expected to continue in the years ahead. Additionally, Europe is expected to continue to see considerable growth in the area of online retailing. zooplus AG expects these trends to continue to propel the company's strong sales momentum. In the year 2019, sales are expected to increase by 14% to 18%.

zooplus at a glance

Customer

- Present in 30 European countries
- Compelling USPs for customers include attractive pricing, broad selection and high-quality delivery
- A specialist for pet food and accessories

Company

- European-wide online market leader with a definite advantage over the competition
- Excellent international logistics network for fast delivery throughout Europe
- Highly efficient and scalable cost structures

Market

- Gross volume of European pet supply market currently around EUR 26 bn
- Growing, stable overall market
- Robust growth in online retailing in the pet supply sector

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To the shareholders

Letter from the Management Board

f.l.t.r.: Dr. Mischa Ritter, Dr. Cornelius Patt, Florian Welz, Andreas Grandinger

Dear Ladies and Gentlemen, Dear Shareholders,

In just a few weeks, zooplus AG will celebrate its 20th anniversary. The company has followed an impressive growth path year after year since its formation in 1999. Today, we are by far the market leader in the online retail of pet supplies in Europe. In 2018, we were able to consistently grow once again and consolidate our position in the overall brick-and-mortar and online pet supply market. Last year, close to 7 million customers purchased pet supply products comfortably and conveniently online with zooplus. The year 2018 confirmed again that the zooplus strategy, with its focus on sustainable growth and significant sales increases, is the right one.

In an overall steadily growing pet supply market, zooplus continued to expand above trend, increasing sales by EUR 231 m in 2018 to a total of EUR 1,342 m, representing an increase of 21% over the previous year. Overall, sales were at the lower end of our guidance range of 21% to 23%. This was mainly a result of lower-than-average growth in our sales with new customers in the first half of 2018, which had a corresponding effect on sales performance in the quarters that followed. Fortunately, we were able to significantly accelerate our acquisitions of new customers in the second half of 2018, while at the same time reaching a new record in customer loyalty of 95% (currency adjusted) based on the sales retention rate. This performance gave further confirmation of zooplus' excellent market position.

Earnings before taxes (EBT) in the 2018 financial year were influenced again by investments in the ongoing expansion of our business model and market position and reached EUR -2.3 m, which was within our 2018 guidance range. We were particularly pleased with the development in our free cash flow which ended the 2018 financial year clearly in positive territory at a level of EUR 14.3 m. Given the sharp improvement in our working capital, we were again able to finance our high growth and ongoing investment internally in the 2018 financial year.

The end of the year was also marked by changes in the zooplus Management Board. Andrea Skersies, who has been responsible for sales and marketing for the past 18 years and has had a significant influence on shaping the company's success, left the company at the end of November 2018. After an intense and moving time at the company, Ms. Skersies decided to set other priorities in her future professional and private life. Once again, we would like to thank Ms. Skersies for her dedication and excellent work in building up zooplus AG and wish her all the best in her future endeavors.

At the same time, we are pleased to welcome, Florian Welz, a seasoned retail and e-commerce expert, as our new Board member responsible for sales, marketing and vendor management. We have also appointed Dr. Mischa Ritter as our new COO and Management Board member responsible for Logistics, marking another step in the reinforcement of our management team. We are very confident that this newly organized team will be able to continue the zooplus success story in the years ahead.

We have specifically set ourselves the following financial goals for the 2019 financial year:

- Sales growth between 14% and 18%
- EBITDA in the range of EUR 10 m to EUR 30 m

We will continue to adapt the organizational structure to the growing size of the company. We have already substantially expanded our IT development activities in 2018, placing our development capacities on a much broader basis. With nearly 200 IT software developers at five European locations, we have been able to create the best environment possible for the continuous expansion of our IT platform and customer-driven services.

We also significantly expanded our logistics capacities in 2018 and are particularly pleased with the significant expansion of our UK logistics center, which only began operation in 2017. This expansion reflects the great importance of the British market within Europe and, at the same time, puts us in a much better position with regard to the potential effects of Brexit. In addition, at the end of 2018, we integrated a further large logistics center located in Poland and a medium-sized logistics center in Spain into our logistics processes. In doing so, we have created the conditions for continued growth and improvement in our deliveries to customers.

Now, in 30 European countries, we offer close to 7 million active customers an excellent shopping experience at all times, and the best possible service in every respect. Everything we do is driven by our clear focus on unparalleled customer satisfaction.

We would like to sincerely thank our employees at all of our locations throughout Europe for their tremendous dedication, their loyalty and their achievements – all of which are instrumental in the success of zooplus AG.

We would also like to thank our customers, suppliers and all other business partners again this year for their excellent and trustworthy cooperation during the 2018 financial year. All of you have helped us to continue our successful growth path.

Finally, a special thank you, to our shareholders, for your loyalty to the company. We appreciate your trust and will continue to do our utmost to ensure the successful, ongoing development of zooplus AG.

Dr. Cornelius Patt (CEO)	Andreas Grandinger	Florian Welz	Dr. Mischa Ritter

Report of the Supervisory Board

Dear Shareholders,

During the 2018 financial year, the Supervisory Board performed its duties in accordance with the law, Articles of Association and Rules of Procedure while continually monitoring and advising the Management Board in its management of the company and conducting the company's business.

Cooperation with the Management Board

As in previous years, the Supervisory Board can reflect on another year of close and very effective cooperation with the Management Board. Based on the Management Board's regular, timely and extensive reporting, the Supervisory Board was able to deal in detail with the company's position and development. The Management Board informed the Supervisory Board fully, continuously and promptly by means of both written and oral reports about the current earnings development of the company and the business segments, including the risk situation, risk management and compliance. The Supervisory Board also received information on projects and transactions of particular importance or urgency outside of Supervisory Board meetings. The chair of the Supervisory Board maintained close contact with the Management Board, particularly with the CEO and kept itself up-to-date on the business outlook and material business transactions. The Supervisory Board was directly involved in all decisions of fundamental importance for the company and agreed in its resolutions with the proposals of the Management Board after conducting a detailed examination and discussion.

Focus of discussions in the 2018 financial year

During its regularly scheduled meetings, the Supervisory Board addressed the company's operating and strategic development and kept informed of the company's business performance, financial development, and operating environment during the past financial year based on detailed written and oral reports received from the Management Board. At the Supervisory Board meetings, members discussed and made decisions on numerous issues and actions requiring approval.

During the 2018 financial year, the Supervisory Board met for four scheduled, personally attended meetings on March 15, 2018, June 13, 2018, September 20, 2018, and November 26, 2018. Several resolutions based on the written circulation of documents and via telephone were made during the financial year.

A key element of all Supervisory Board meetings was the Management Board's reports on the business situation. These reports included detailed information on the development of sales and earnings, the opportunities and risks of business development, the status of major ongoing and planned investment projects such as the expansion of logistics capacities, information on capital markets developments, significant measures taken by the Management Board to manage the business, as well as personnel and organizational matters. In addition, the Supervisory Board updated itself regularly about risk management, the audit results of the internal audit, the internal control systems and the compliance management system.

In its meeting on March 15, 2018, the Supervisory Board focused on the current business development, as well as that of the 2017 financial year. The Supervisory Board reviewed the annual financial statements and management reports of zooplus AG and the Group as of December 31, 2017 presented by the Management Board. The Supervisory Board approved the auditor's results and the annual financial statements and thereby adopted the 2017 annual financial statements. The Supervisory Board also approved the Management Board's proposal for the appropriation of retained profits. The meeting's agenda also included the approval of the topics for the 2018 internal audit, as well as the issue of stock options under the 2016/I Stock Option Program. Key topics for discussion were also the expansion of the company's logistics capacity and the topic of pricing.

In April 2018, the Supervisory Board set the agenda for the 2018 Ordinary Annual General Meeting.

Following the Ordinary Annual General Meeting of zooplus AG, the Supervisory Board assembled at its meeting on June 13, 2018, in which the Supervisory Board and Management Board addressed strategic issues and several current operating issues related to corporate social responsibility within the company and discussed the successful implementation of the General Data Protection Regulation.

In July 2018, the Management and Supervisory Boards resolved to launch a stock option program 2018/I ("SOP 2018/I") based on the authorization created by the 2018 Ordinary Annual General Meeting. The Supervisory Board subsequently decided to issue stock options to the Management Board under this SOP 2018/I.

At the Supervisory Board meeting on September 20, 2018, the Supervisory Board dealt with the changes in the Management Board of zooplus AG, namely the resignation of Ms. Skersies effective November 30, 2018, and the appointment of Florian Welz and Dr. Mischa Ritter, both effective as of December 1, 2018. A resolution was also made to open two new fulfillment centers in Spain and Italy.

During the meeting on November 26, 2018, the Management Board reported on current business and market developments and presented the zooplus AG 2019 financial plan to the Supervisory Board who approved the plan after a review and discussion. Also on the meeting's agenda was the approval of the new schedule of responsibilities for the Management Board, as well as the issue of stock options to Mr. Florian Welz and Dr. Mischa Ritter under SOP 2018/I in December 2018. The compliance with the recommendations of the German Corporate Governance Code in its current version and submitting the updated Declaration of Conformity were also topics in this meeting. In connection with this, the Supervisory Board also discussed the results of the efficiency review of its activities and resolved an updated target for the proportion of women on the Management Board. Other items resolved and dealt with by the Supervisory Board included the investments required in the fulfillment center in Wroclaw, Poland, the renewal of the contract with the fulfillment center service provider in Antwerp, Belgium, and the impact of Brexit on the company and its UK operations.

There were no conflicts of interest in the past financial year involving members of the Management and Supervisory Boards that were required to be immediately disclosed to the Supervisory Board and reported to the Annual General Meeting.

When members of the Supervisory Board were not able to participate in meetings of the Supervisory Board or its committees, these members were excused and submitted their votes usually in writing. With the exception of one Supervisory Board meeting, all Supervisory Board members attended all of the Supervisory Board meetings, and no member attended less than half of all Supervisory Board meetings.

Composition of the Supervisory Board and Management Board

The members of the Supervisory Board in the 2018 financial year were Mr. Christian Stahl (Chair), Mr. Moritz Greve, Mr. Karl-Heinz Holland, Mr. Ulric Jerome, Mr. Henrik Persson and Dr. Norbert Stoeck. The members of the Supervisory Board as a whole are familiar with the sector in which the company operates. Dr. Stoeck, among other things, is a qualified financial expert as defined by Section 100 (5) AktG.

The Management Board consisted of three members until November 30, 2018: Dr. Cornelius Patt (CEO), Ms. Andrea Skersies and Mr. Andreas Grandinger. Ms. Skersies left the Management Board on November 30, 2018. Since December 1, 2018, the members of the Management Board have been Dr. Cornelius Patt and Mr. Andreas Grandinger, as well as Dr. Mischa Ritter and Florian Welz. Dr. Ritter is responsible for the area of Logistics and Supply Chain Management, and Mr. Welz is responsible for Vendor Management and Sales.

The Supervisory Board would like to thank Ms. Skersies for her valuable and formative work as Management Board member of zooplus AG and her strong commitment to the company for the past several years.

Supervisory Board committees

The Supervisory Board has formed three committees from among its members to efficiently prepare selected topics: an Audit Committee, a Personnel Committee and a Nomination Committee.

During the 2018 financial year, the **Audit Committee** consisted of Dr. Stoeck (Chair of the Audit Committee), Mr. Greve and Mr. Holland. Dr. Stoeck possesses special knowledge and experience in the application of accounting principles and internal control procedures and fulfills the criterion of independence. In addition, the members of the Audit Committee as a whole are familiar with the sector in which the company operates.

The Audit Committee held four face-to-face meetings during the reporting year. In its meeting on March 12, 2018, the Committee dealt extensively with the separate financial statements and consolidated financial statements of zooplus AG for the 2017 financial year. In subsequent meetings during the reporting year, the Audit Committee dealt in depth with the company's accounting processes; the effectiveness of the internal, group-wide control and risk management system and its further development; and IT security. Other important topics were the internal audit, as well as corporate and tax law issues. At the Supervisory Board meetings, the chairperson of the Audit Committee provided a complete report to the Supervisory Board on the committee meetings' content and results following the respective committee meeting.

The members of the **Personnel Committee** in the reporting year were Mr. Stahl (Chair of the Personnel Committee), Mr. Greve and Mr. Jerome. The task of the Personnel Committee is to prepare the personnel decisions of the Supervisory Board plenum that resolve on the reappointment of the members of the Management Board. The resolution on the extension of the appointment of the members of the Management Board, the total remuneration of the individual members of the Management Board, the individual remuneration components and the regular review of the remuneration system are the responsibility of the Supervisory Board plenum, which receives recommendations from the Personnel Committee. The Personnel Committee did not hold any meetings in person during the year under review, but intensively dealt with the changes in the Management Board in several conference calls. In rotation, the members of the Personnel Committee met with the candidates for the new Management Board positions. The Committee members held close discussions on the selection process, including the final recommendation submitted by the Personnel Committee to the Supervisory Board for resolution on the appointment of the new members of the Management Board.

The **Nomination Committee** during the reporting year consisted of Mr. Greve (Chair of the Nomination Committee), Mr. Stahl and Mr. Persson. The Nomination Committee is tasked with proposing suitable candidates to the Supervisory Board for the nomination of Supervisory Board members to the Annual General Meeting. The Nomination Committee did not hold any face-to-face meetings in the year under review as there were no Supervisory Board members up for election in 2018.

Corporate Governance

The Supervisory Board and Management Board are aware that good corporate governance is the basis for the company's success and is therefore in the best interest of the zooplus AG shareholders and the capital market.

The Supervisory Board and the Management Board jointly issued the Declaration of Conformity pursuant to Section 161 AktG with regard to the recommendations of the Government Commission on the German Corporate Governance Code, which was made permanently accessible on zooplus AG's website (http://investors.zooplus.com/en/corporate-governance/corporate-governance-statement.html). A separate section on the implementation of the German Corporate Governance Code is provided as part of this annual report.

Annual and consolidated financial statements as of December 31, 2018

During the Supervisory Board's financial statement meeting on March 14, 2019, and in view of the Audit Committees findings report, the Supervisory Board dealt in depth with the documents for the annual financial statements, the auditor's reports, the annual financial statements prepared according to German accounting standards (HGB), the consolidated financial statements prepared according to IFRS, each as of December 31, 2018, and the combined management report for the company and the group for the 2018 financial year. The auditor's reports, the annual financial statements and group financial statements both prepared by the Management Board and the combined management report of zooplus AG and the Group were presented to the Audit Committee and the Supervisory Board on schedule, giving them sufficient opportunity to review these documents.

The Munich branch office of the auditor PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt/Main audited the financial statements prior to the Supervisory Board's review. There are no concerns as to the auditor's independence. In the auditor's opinion, the annual and consolidated financial statements are in compliance with the respective accounting standards and give a true and fair view of the company's and Group's net assets, financial position, results of operations and cash flows. In each case, the auditor issued an unqualified opinion. In addition, in its assessment of the risk management system, the auditor stated that the Management Board had taken the steps required in accordance with Section 91 (2) AktG to ensure the early detection of any risks that could jeopardize the company's existence.

The auditor's representatives were present during the Audit Committee's and Supervisory Board's discussions about the annual and consolidated financial statements reported on the audit's key findings and were available to furnish the Supervisory Board with additional information.

The Audit Committee recommended to the Supervisory Board that it approves the financial statements prepared by the Management Board. Upon a thorough examination of the annual financial statements, consolidated financial statements and the combined management report, the Supervisory Board concurred with the respective auditor's reports. After the final result of the review from the Audit Committee and the examination by the Supervisory Board, there were no objections raised. The Supervisory Board approved the annual and consolidated financial statements at its meeting on March 14, 2019, and thereby adopted the annual financial statements of zooplus AG. The Supervisory Board also approved the combined management report and the assessment of the company's future development.

For the 2018 financial year, a separate consolidated non-financial report pursuant to Sections 315b and 315c HGB in conjunction with Sections 289b through 289e HGB was prepared for the first time. In accordance with the recommendation of the Audit Committee pursuant to Sections 170 and 171 AktG, the Supervisory Board examined the legal, proper and expedient preparation of the separate non-financial report and critically examined the methods and procedures used by the Management Board as well as the data collection processes. The separate non-financial report was subject to an audit review by the auditor. As part of the audit procedures performed and the audit evidences obtained, no circumstances have become known which indicate that the non-financial report has not been prepared in all material respects in accordance with Sections 315b and 315c HGB in conjunction with Sections 289b through 289e HGB. According to the final result of this audit, there were no grounds for objection, and on March 14, 2019, the Supervisory Board approved the separate non-financial report prepared by the Management Board.

Lastly, the Supervisory Board adopted this report for the Annual General Meeting.

On behalf of the Supervisory Board, I would like to thank the members of the Management Board and the employees of the zooplus Group for their tremendous personal commitment, which greatly contributed to another successful financial year for zooplus.

Munich, March 2019

On behalf of the Supervisory Board

Christian Stahl
Chairman of the Supervisory Board

Corporate Governance Report

In accordance with the provisions of the German Corporate Governance Code, the Management Board and Supervisory Board report annually on the company's corporate governance. The Statement on Corporate Governance pursuant to Sections 289f and 315d HGB can be found under the Investor Relations section on the company's website at http://investors.zooplus.com/en/home.html (see the management report on page 94).

Declaration of the Management and Supervisory Boards of zooplus AG pursuant to Section 161 of the German Stock Corporation Act (AktG) on the recommendations of the "Government Commission German Corporate Governance Code"

1. The Management and Supervisory Boards of zooplus AG hereby declare that since the issue of the last Declaration of Conformity dated December 1, 2017, the company has complied with the recommendations of the "Government Commission German Corporate Governance Code" in the version dated February 7, 2017 (the "Code") as of their notification by the Federal Ministry of Justice and Consumer Protection in the official section of the Federal Gazette on April 24, 2017 with the following exceptions:

   Item 3.8 (3): The current D&O insurance does not provide for a deductible for members of the Supervisory Board. The Management and Supervisory Boards believe that a deductible does not change the sense of responsibility and loyalty with which the members of the boards perform their tasks and functions.

   Item 4.2.3 (2) sentence 4: The members of the Management Board participate in a company stock option program. Upon the expiry of a specified vesting period and the achievement of certain performance targets determined by the Annual General Meeting, the stock options grant the right to receive shares in the company at a set price. The stock option program does not provide a specific rule for taking negative developments into account. Negative developments are taken into account indirectly by the fact that the exercise of the option rights can become economically unattractive on the basis of the set exercise price. Therefore, as a precaution, the Management and Supervisory Boards declare a deviation from the Code's provision.

   Item 4.2.3 (4) sentence 3: In the event of the early termination of a Management Board member's service contract, the calculation of the severance payment cap is based on the total remuneration of the past financial year as well as the expected total remuneration of the current financial year, when applicable. In accordance with the provisions of the Management Board service contracts, the calculation of the severance payment cap takes into account the respective basic remuneration in addition to the fair value of the stock options or the entitlements to a cash bonus plan to be granted to the respective Management Board member up to the termination date. The Management and Supervisory Boards consider this procedure to be appropriate in order to sufficiently reflect the specific circumstances leading to the early termination of the Management Board member's service contract and the individual situation at the time of termination.

   Item 5.4.1 (2) sentence 2: The Supervisory Board has not set a regular limit for the term of office of Supervisory Board members. The Supervisory Board believes that a preset limit does not take into account individual factors that would justify a longer membership for individual members of the Supervisory Board. The Supervisory Board, therefore, would like to retain the general option and flexibility to profit from the expertise of long-standing and experienced Supervisory Board members and to propose candidates to the Supervisory Board who have extensive experience with the company and have proven themselves through their work on the zooplus AG Supervisory Board.

Item 5.4.6 (1) sentence 2: The remuneration of Supervisory Board members does not give special consideration for the role of deputy chairperson of the Supervisory Board or for memberships in committees as the workload of the deputy chairperson and committee members does not differ significantly from that of the other Supervisory Board members.

Item 7.1.2 sentence 2: Interim financial information is not discussed by the Management and Supervisory Boards or its audit committee before the information's publication. Such discussions could otherwise lead to delays in the dissemination of capital market information.

Item 7.1.2 sentence 3: Interim reports (since the publication of the Code in its version of February 7, 2017: mandatory interim financial information) are published no later than two months after the end of the reporting period, and therefore within the two-month period required by Frankfurt Stock Exchange's regulations for the publication of quarterly statements by issuers listed in the Prime Standard. zooplus AG believes that this deadline is sufficient to ensure proper accounting.

2. The recommendations of the "Government Commission on the German Corporate Governance Code" in the version dated February 7, 2017 will be complied with in the future, excluding those exceptions stated above in Section 1, whereby zooplus AG will henceforth adhere to the recommendation in Section 7.1.2 sentence 2 and will therefore no longer declare a deviation to Section 7.1.2 sentence 2 of the Code in the future.

Munich, November 30, 2018

On behalf of the Supervisory Board	On behalf of the Management Board
Christian Stahl	Dr. Cornelius Patt
Chairman of the Supervisory Board	CEO

In accordance with Section 161 (2) AktG, the Declaration of Conformity is permanently available for shareholders and all other interested parties on the company's website at http://investors.zooplus.com/en/home.html.

Corporate governance

In the following, the Management Board and the Supervisory Board provide the annual report on corporate governance in the company in accordance with the recommendation in Item 3.10 of the German Corporate Governance Code ("Code" or "GCGC").

Responsible, sustainable and value-oriented corporate governance is an overriding priority at zooplus. Good corporate governance is a central element of the company's corporate management and provides the foundation for leading and overseeing the Group, its organization, business principles and structures for direction and supervision.

The purpose of the Code is to create a transparent framework both for the company's management and control. zooplus considers good corporate governance to be an important tool for increasing the trust of shareholders, employees and customers. Therefore, the goal of zooplus AG's Management Board and Supervisory Board is to practice solid and responsible corporate management so as to create sustainable value.

Management and control structure

As a German stock corporation (AG), the company is subject to the German Stock Corporation Act and has a dual management and control structure, which is characterized by a strict separation between the Management Board as the management body and the Supervisory Board as the supervisory body.

Management Board

zooplus AG's Management Board manages the company under its own responsibility free from third-party interference in accordance with statutory provisions, the company's Articles of Association, Rules of Procedure, Schedule of Responsibilities and the resolutions of the Annual General Meeting. The Management Board develops the company's strategic plans, obtains the agreement of the Supervisory Board and subsequently ensures the plans' implementation.

Prior to November 30, 2018, the Management Board consisted of three members: Dr. Cornelius Patt (CEO), Ms. Andrea Skersies and Mr. Andreas Grandinger. Effective as of November 30, 2018, Ms. Skersies left the Management Board. Since December 1, 2018, the Management Board consists of Dr. Cornelius Patt, Mr. Andreas Grandinger, Dr. Mischa Ritter and Mr. Florian Welz.

The members of the Management Board have clear and separate duties. Management Board members are responsible for their own specific area as outlined in the Management Board's Schedule of Responsibilities and within the context of the Management Board's Rules of Procedure and resolutions. They should keep their fellow Management Board members continually informed of important issues in their respective areas. The CEO directs the overall management and guides the company's business strategy. In the company's interest, the members of the Management Board, as members of the governing body, are jointly responsible for the company's overall management.

Supervisory Board

The Supervisory Board oversees and advises the Management Board in the management of the business. The Supervisory Board reviews the annual financial statements, the consolidated financial statements and the combined management report as well as the proposal for the appropriation of retained profits. The Supervisory Board adopts the zooplus AG annual financial statements and approves the consolidated financial statements subject to the results of the auditor's audit report. Included in the duties of the Supervisory Board are the appointing of Management Board members and preparing and concluding employment contracts with Management Board members.

The Supervisory Board of zooplus AG consists of six members, all of whom are to be elected by the Annual General Meeting. In the reporting year, the Supervisory Board consisted of Christian Stahl (Chair), Moritz Greve, Karl-Heinz Holland, Ulric Jerome, Henrik Persson and Dr. Norbert Stoeck.

The Supervisory Board and the Management Board discuss business development, planning, the company's strategy and its implementation at regular intervals. Within the scope of the company's strategic evaluation, risk management and reporting, the Management Board communicates with the entire Supervisory Board, not just its chairperson, to ensure that it can carry out its tasks as efficiently as possible.

The Supervisory Board has outlined its own Rules of Procedure. These define the Supervisory Board's tasks, obligations and internal organization and specify details regarding non-disclosure requirements, the handling of conflicts of interests, and the constitution and work of the committees.

In line with the recommendation in Item 5.6 of the Code, the Supervisory Board reviewed the efficiency of its activities in 2018. The efficiency review focused in particular on procedures within the Supervisory Board and the flow of information between Supervisory Board members, as well as between the Supervisory and Management Boards.

The members of the Supervisory Board do not have any Board functions or advisory tasks at any of the company's key competitors, nor do they have any professional or personal connection with zooplus AG or its Management Board. The Supervisory Board does not consist of any former Management Board members.

Dr. Stoeck is the member of the Supervisory Board with expertise in the areas of accounting and auditing. Additionally, the members of the Supervisory Board as a whole are all familiar with the sector in which the company operates.

The Supervisory Board of zooplus AG has formed an audit committee, a personnel committee and a nomination committee. The committees report on their activities regularly in detail to the Supervisory Board.

The main task of the **Audit Committee** is to assist the Supervisory Board in fulfilling its supervisory obligation with respect to the accuracy of the annual and consolidated financial statements, and the auditor's activities. It also monitors the effectiveness of the internal control system (ICS), internal auditing, organizational arrangements for compliance with legal provisions, internal corporate guidelines (compliance), and the risk management system. Since 2018, it has also been responsible for the preparatory audit of non-financial reporting and possibly engages an auditor to perform an audit.

The Audit Committee in the reporting year included Dr. Stoeck (Chair of the Audit Committee), Mr. Greve and Mr. Holland. Dr. Stoeck has special knowledge and experience in the application of accounting principles and internal control procedures and fulfills the criterion of independence. Additionally, the members of the Audit Committee as a whole are all familiar with the sector in which the company operates.

The **Personnel Committee** in the reporting year consisted of Mr. Stahl (Chair of the Personnel Committee), Mr. Greve and Mr. Jerome. The task of the Personnel Committee is to prepare the personnel decisions of the Supervisory Board that decide the appointment and revocation of appointment of the members of the Management Board. The resolution on the extension of the appointment of the members of the Management Board, the total remuneration of the individual members of the Management Board, the individual remuneration components and the regular review of the remuneration system are the responsibility of the entire Supervisory Board, which receives recommendations from the Personnel Committee.

The **Nomination Committee** in the reporting year consisted of Mr. Greve (Chair of the Nomination Committee), Mr. Stahl and Mr. Persson. The task of the Nomination Committee is to recommend suitable candidates to the Supervisory Board for its proposals to the Annual General Meeting for their membership in the Supervisory Board.

In doing so, special attention should be paid to the statutory requirements and the recommendations and suggestions of the Code. In consideration of Item 5.4.1 (2) sentence 1 of the Code, the Supervisory Board has specified the following concrete objectives for its composition:

- **Professional qualifications and experience:** Among the prerequisites for a seat on the Supervisory Board are first and foremost a candidate's professional qualifications and personal abilities. When proposing candidates for Supervisory Board membership, the primary criteria is the candidate's ability to perform the duties of a Supervisory Board member at an internationally operating company and to safeguard the zooplus Group's public reputation based on the candidate's knowledge, skills and professional experience..
- **International representation:** In view of the company's international orientation, it is particularly important that the Supervisory Board has a sufficient number of members possessing extensive experience in international business.
- **Avoidance of potential conflicts of interest/number of independent members:** The Supervisory Board should consist of an adequate number of independent members as defined by the Code. The Supervisory Board believes it is adequate when two members of the Board are independent members. Material and lasting conflicts of interest, for example, from holding positions in executive bodies or taking consulting roles with key competitors to zooplus AG, should be avoided. Particularly in the case of candidate proposals to the Annual General Meeting, it should be ensured that the respective candidate does not have an active management or consultancy role or is a member of a supervisory body of competitors, suppliers, lenders or customers in order to preclude any conflicts of interest. Members of the Supervisory Board should have sufficient time available to carry out their duties, ensuring that they can perform these duties with the due care and regularity required.
- **Age limit:** The Supervisory Board has ruled that its members should generally be no older than 70 years of age.
- **Defined length of service:** The recommendation of the Code to adopt a standard limit of length of service for membership in the Supervisory Board has been deviated from in order to retain the option to benefit from the expertise of long-term and experienced Board members.

- **Diversity:** The Supervisory Board's aim when composing the Supervisory Board is to enable its members to optimally execute their monitoring and advisory functions supported by the diversity of its members. Diversity primarily refers to international background, upbringing, education and career path and not nationality or diversity in the context of gender or age. This means that the composition of the Supervisory Board should appropriately reflect the diversity of an open, innovative and internationally operating company such as zooplus AG. However, it also means that no one person should be ruled out or proposed as a candidate for the Supervisory Board solely due to the fulfillment or non-fulfillment of any of the characteristics mentioned. Women should be properly taken into consideration based on their qualifications and suitability. For this reason, the Supervisory Board strives to propose an appropriate share of women candidates for election, even though the Supervisory Board is aware that the targeted, appropriate share of women on the Supervisory Board cannot be achieved immediately. Nonetheless, the Supervisory Board intends to include qualified women in its selection process and election proposals, starting with the examination of potential candidates for new appointments or as replacements for vacant Supervisory Board positions. A prerequisite for the proposed election of female Supervisory Board members should be their qualification and concrete suitability for the company. The Supervisory Board is striving to ensure that there is, at least, one female member of the Supervisory Board.

The aims relating to "professional qualifications," "internationality," "age limit" and "avoiding potential conflicts of interest," have all been complied with and achieved in the reporting year. In the opinion of the Supervisory Board, a total of five members were independent as per the definition of the Code in the 2018 financial year, thereby ensuring the independence of the Supervisory Board. The five independent Supervisory Board members were Mr. Stahl, Mr. Holland, Mr. Jerome, Mr. Persson and Dr. Stoeck. The goal of diversity will also be taken into account in the search for suitable Supervisory Board candidates. When including female candidates in the selection process for election to the Supervisory Board, the candidate's abilities and qualifications will remain the key criteria for proposals. The Supervisory Board ensures that its proposals to the Annual General Meeting for candidates for the Supervisory Board have the adequate time necessary to serve on the Supervisory Board.

In addition to resolving on the objectives for the Supervisory Board's composition, the Supervisory Board also decided on a competence profile for its members in accordance with the recommendation in Item 5.4.1 (2) sentence 1 of the Code:

I. General Information

The Supervisory Board of zooplus AG is to be composed in a manner that ensures the qualified supervision and advice of the zooplus AG Management Board. As a whole, its members should have the experience, professional expertise, independence, commitment, integrity and personality required to properly and successfully perform the tasks of the Supervisory Board in a capital market-oriented, internationally operating company. The Supervisory Board's composition should also ensure sufficient diversity in terms of various professional backgrounds, professional expertise, experience and personality in the interest of successful cooperation across the Board.

The shareholder representatives on the Supervisory Board are proposed by the Supervisory Board and elected by the Annual General Meeting.

In view of the above and based on the recommendations and suggestions of the Code, the following competency profile for the Supervisory Board should be considered in the composition of the Supervisory Board and in the Supervisory Board's nominations to the Annual General Meeting:

II. Requirements for individual Supervisory Board members

1. General requirements

Each member of the Supervisory Board should have experience and professional expertise relevant to the business activities of the zooplus Group. Based on the member's knowledge, skills and professional experience, he/she must be able to fulfill the duties of a member of the Supervisory Board of a capital market-oriented, internationally operating company and protect the reputation of the zooplus Group in public. These requirements specifically include

- general knowledge of retailing and the value creation along different value chains;
- general knowledge of the specifics of retailing in the e-commerce industry and digital business models;
- general knowledge of zooplus' key sectors, markets and regions;
- general knowledge in the areas of operations, marketing and sales;
- general knowledge in the areas of financial reporting, bookkeeping and accounting;
- general knowledge in the areas of corporate governance, controlling, risk management and compliance;
- willingness and ability to commit sufficient time and content, including membership in Supervisory Board committees;
- taking part in education and training upon his or her own initiative; and
- compliance with the GCGC recommended limit on the number of mandates.

To promote extended cooperation between Supervisory Board members, care should be taken that the aspect of diversity in terms of professional background, professional expertise, experience and personality is sufficiently taken into account when selecting candidates.

2. Time availability

Each member of the Supervisory Board ensures that it can afford the expected time required for the proper exercise of the Supervisory Board mandate. In particular, it must be borne in mind that (i) at least four ordinary meetings of the Supervisory Board are held, each of which requires appropriate preparation, (ii) sufficient time is available for reviewing the documents relating to the annual financial statements and consolidated financial statements, and (iii) membership in one or more Supervisory Board committees requires an additional time commitment. In addition, extraordinary meetings of the Supervisory Board or its committees may be required if necessary to deal with special topics.

3. Age limit for Supervisory Board members

As a rule, only candidates who are not older than 70 of age at the time of their election or re-election should be proposed for election as members of the Supervisory Board.

III. Requirements for the composition of the Supervisory Board as a whole

1. Specific expertise

At least one member of the Supervisory Board must have expertise in the areas of accounting or auditing in view of the requirements of Section 100 (5) AktG; the members of the Supervisory Board as a whole must be familiar with the sector in which zooplus operates – e-commerce retailing.

2. Independence and avoidance of conflicts of interest

The Supervisory Board should set what it believes to be an appropriate number of independent members as defined by Item 5.4.2 GCGC while taking the ownership structure into account.

The members of the Supervisory Board should not exercise any executive functions or advisory functions for key competitors of the zooplus Group. The Supervisory Board should not include more than two former members of the zooplus AG Management Board. Members of the Supervisory Board who are members of a management board of a listed company should not hold more than three supervisory board mandates in listed companies outside of the Group or in supervisory bodies of companies outside of the Group that have comparable requirements.

3. Diversity of members in terms of gender

The Supervisory Board shall set a target for the proportion of women in the Supervisory Board and, with regard to diversity, strive in particular for appropriate participation of both genders in the Board's composition.

4. Diversity of members in terms of internationality

At least one-third of the Supervisory Board members should possess significant international experience in terms of origin, extended periods abroad, different cultural backgrounds, etc., to reflect the international activities of the zooplus Group.

IV. Considerations when making election proposals to the Annual General Meeting

Nominations made by the Supervisory Board to the Annual General Meeting should take into account the objectives stated as well as the objective to meet the competency profile for the Supervisory Board as a whole. The status of implementation is to be published in the Corporate Governance Report. The Supervisory Board will regularly review the competence profile.

In the 2018 financial year, the Supervisory Board was successful in fully meeting the target competency profile.

Information on targets for the representation of women on the Supervisory Board, Management Board and senior executive levels of zooplus AG

The "Law for Equal Participation of Women and Men in Leadership Positions in the Private and Public Sectors" stipulates targets to be determined for the representation of women on the Supervisory Board, Management Board, Board of Directors and the next two management levels.

Female representation on the Supervisory Board

For the zooplus AG Supervisory Board, the share of female representation in the form of a self-determined set target level to be achieved by June 30, 2021 has not been established. The Supervisory Board believes that despite its desire to have at least one woman on the Supervisory Board, the best-qualified candidate for the Supervisory Board must be determined based on a variety of criteria.

Female representation on the Management Board

The Management Board of zooplus AG currently consists of four members. Following the departure of Ms. Skersies from the Management Board as of November 30, 2018, the previous target of 33% was no longer meaningful from an organizational aspect. The Supervisory Board has modified the targeted percentage, and in accordance with Section 111 (5) AktG has decided to no longer stipulate a set target for female representation on the Management Board until the self-imposed deadline of October 31, 2023. The Supervisory Board is of the opinion that despite the attempt to have at least one female member on the Management Board, the candidate with the best possible qualification for the Management Board mandate must be judged according to a variety of criteria.

Female representation in the first and second levels of management

In accordance with Section 76 (4) AktG, the zooplus AG Management Board established a target level of female representation of 33% each for the first and second management levels below the Management Board. This target is to be maintained until June 30, 2021. The two levels of management, as defined by Section 76 (4) AktG, were established based on the existing reporting lines below the Management Board at zooplus AG. The above mentioned target levels are currently being achieved in both the first and second levels of management.

Cooperation between the Management Board and Supervisory Board

In-depth discussions between the Management Board and Supervisory Board provide the basis for responsible corporate management.

The Management Board informs the Supervisory Board in a periodic, timely and comprehensive manner of all relevant company issues relating to strategy, planning, business development, the risk situation, risk management and compliance. This includes information on any deviations in the company's business development versus previously formulated plans and targets and the reasons for these deviations. In a monthly meeting, the chairmen of the Management Board and Supervisory Board discuss important issues concerning business development and other current topics. Critically assessing the course of business is one of the Supervisory Board's main tasks.

The Management Board's concrete tasks and duties towards the Supervisory Board are set out in the Management Board's Rules of Procedure. The Rules of Procedure specify the Management Board's obligations with respect to informing and reporting to the Supervisory Board and the provision that the Supervisory Board must approve any transactions of fundamental importance to the business.

Further information about the cooperation of the Management and Supervisory Boards can be found in the Report of the Supervisory Board.

Avoiding potential conflicts of interest

Under its Rules of Procedure, Management Board members are obliged to inform the Supervisory Board immediately of any conflict of interest and inform the other members of the Management Board of this conflict. Under the Supervisory Board's Rules of Procedure, Supervisory Board members must immediately disclose conflicts of interest to the Supervisory Board, particularly those that may result from a consulting role or a directorship with customers, suppliers, lenders or other business partners. Substantial and not merely temporary conflicts of interest of a member of the Supervisory Board shall result in the termination of the mandate. In the 2018 financial year just ended, there were no conflicts of interest with members of the Management Board or Supervisory Board in the carrying out of duties for zooplus AG.

Remuneration

The Supervisory Board is responsible for determining the structure of the remuneration system as well as the remuneration of the individual members of the Management Board and regularly reviews the remuneration structure for appropriateness. Further details of the remuneration of the members of the Management Board are presented individually in the 2018 financial year in the remuneration report.

In accordance with the Articles of Association, in addition to the reimbursement of their expenses for the past financial year, the Supervisory Board members received annual fixed remuneration of EUR 40,000.00 during the 2017 financial year, and the chair of the Supervisory Board received fixed annual remuneration of EUR 80,000.00. The chairs of the committees received additional remuneration of EUR 5,000.00.

Shareholders and the Annual General Meeting

Shareholders may exercise their rights and voting rights at the Annual General Meeting. Each share is entitled to one vote. Shares with multiple voting rights or preferential voting rights do not exist for any shares nor does a cap in voting rights. The Annual General Meeting, in which the Management Board and Supervisory Board give an account of the preceding financial year, takes place annually. At the Annual General Meeting, shareholders have the option to exercise their voting rights in person, be represented by an authorized proxy of their choice or by a proxy appointed by the company.

The Management Board presents the Annual General Meeting with the annual financial statements and consolidated financial statements. The Annual General Meeting decides on the appropriation of any retained profits, approves the discharge of the members of both the Management Board and the Supervisory Board and elects the auditor. When required, the Annual General Meeting resolves changes to the company's Articles of Association, elects members to the Supervisory Board, and adopts other resolutions on the agenda.

Systematic risk management

Using the established internal control system, the company is in a position to identify possible operating and financial risks early so that it can take the appropriate action. This control system is conceived in such a way that prompt risk supervision is possible, which ensures the correct accounting of all business transactions and the continuous availability of reliable data regarding the company's financial situation.

Transparency

In order to ensure the greatest degree of transparency possible, the company informs its shareholders, financial analysts, shareholder associations, the media, and interested members of the public regularly and promptly of the company's situation and any material business changes. This is done with the aim to strengthen investor confidence in the value potential of zooplus AG.

The company keeps stakeholders continually informed of relevant events in a timely and reliable manner. Insider information directly affecting the company is published immediately by the company in line with legal provisions. The company takes part in regular discussions with private and institutional investors at its Annual General Meeting and capital market events such as roadshows and conferences. In keeping with the principle of fair disclosure, the company treats all shareholders and key target groups equally when it comes to valuation-relevant information. The company promptly provides information to the general public on important new circumstances.

The company website http://investors.zooplus.com/en/home.html serves as the central platform for providing the latest information on the company. The company's financial reports, presentations from analyst and investor conferences, and press and ad-hoc announcements are also available on the company's website. The key dates of recurring publications and events (such as annual reports, interim reports, the Annual General Meeting) are published well in advance.

Interested parties can also view the notifications for the reportable securities transactions of the Management Board and Supervisory Board of zooplus AG and persons closely associated with them, referred to as manager's transactions, on the company's website at http://investors.zooplus.com/en/home.html. Such notifications are published by the company immediately after receiving the information pursuant to Article 19 MAR. The same applies for voting right notifications received by the company pursuant to Section 33 ff. WpHG.

Accounting and auditing

Since the 2005 financial year, Group accounting has been conducted in accordance with International Financial Reporting Standards (IFRS), while the financial statements of the parent company are prepared pursuant to German standards (German Commercial Code – HGB). Reporting is conducted in accordance with statutory requirements and stock market regulations by means of the annual financial statements and quarterly interim reports. The annual report and company website are also published in English in accordance with international standards. The annual and interim reports are published online on the company's website at http://investors.zooplus.com/en/home.html

The Management Board prepares the consolidated financial statements, and these are reviewed by the auditor and the Supervisory Board. The Munich branch office of auditors PricewaterhouseCoopers GmbH, Frankfurt am Main, was elected as the auditor by the 2018 Annual General Meeting. The auditor has submitted a declaration of independence to the Supervisory Board as evidence of its independence. The auditor took part in the consultation of the Audit Committee on March 11, 2019, and that of the Supervisory Board on March 14, 2019, with respect to the 2018 annual financial statements and consolidated financial statements. At these meetings, the auditor reported the results of the audit of the zooplus AG annual financial statements as of December 31, 2018 (HGB), the zooplus Group consolidated financial statements as of December 31, 2018 (IFRS) and the combined management report to the Audit Committee and Supervisory Board.

The auditors of zooplus AG agreed that the Chairman of the Supervisory Board should be promptly informed of any possible disqualifying reasons or reasons for exclusion discovered in the course of the audit when these issues cannot be resolved immediately.

Relationships with shareholders, who are classified as related parties according to the applicable accounting standards, are described in the notes to the consolidated financial statements.

Corporate values and compliance

Compliance with all applicable regulatory provisions is of fundamental importance for the business success of the zooplus Group.

The goal of compliance at zooplus is to promote a corporate culture that prevents criminal and punitive violations in order to avoid penalties, financial loss and reputational damage to the company and its employees. Due to the importance for the company and the fulfillment of the supervisory duties within the company, compliance with anti-corruption and antitrust laws is the focus of compliance at zooplus.

The compliance management system at zooplus is based on the following components:

Code of Conduct / Supplier Code of Conduct

The Code of Conduct, which applies to all employees of the zooplus Group worldwide, is an expression of zooplus' compliance culture and serves as a model for the Management Board, the executive boards and managers and employees alike. It sets out minimum standards that point the way to legitimate and ethical behavior in everyday work and in conflict situations. The zooplus Code of Conduct addresses anti-corruption, the avoidance of conflicts of interest and the appropriate handling of invitations and gifts.

The Supplier Code of Conduct supplements the Code of Conduct and details our ethical, social and legal expectations of our business partners.

Whistleblower system

zooplus also provides the option to submit anonymous and retaliation-free information about the serious personal misconduct of employees, such as committing corruption. Tips are followed up seriously while confidentiality and discretion are kept a top priority. All matters resulting from the use of the whistleblower system are investigated and processed by the Whistleblower Compliance Team. zooplus has also set up an external reporting office, which is staffed by a trusted, external attorney.

All tips on suspected cases will be followed up. Internal compliance investigations will be carried out for cases based on concrete evidence. If we detect misconduct on the part of our employees, we may take disciplinary action in accordance with the labor laws.

No reports of suspicious activity were submitted via the whistleblower system in the past reporting year.

Non-Financial Report 2018

zooplus AG's business success is influenced, in part, by a large number of non-financial factors. The company therefore welcomes the European Directive 2014/95/EUR on "Disclosure of Non-Financial and Diversity Information by Certain Large Undertakings and Groups" as an important step toward the greater integration of the issues of sustainability and Corporate Social Responsibility (CSR) in group reporting and control.

This combined separate Non-Financial Report 2018 (hereinafter referred to as "Non-Financial Report"), prepared in compliance with Sections 315b, 315c in conjunction with 289b to 289e HGB, represents zooplus AG's first report in accordance with the reporting duties set out under these regulations. The Non-Financial Report deals with non-financial matters that are necessary for understanding the company's business development, results of operations and the position, as well as the impact of business operations on the environment and society.

Key Facts and Reporting Limits

The CSR Directive Implementation Act principally requires the presentation of the implications, management concepts, results, key performance indicators and significant risks concerning at least five aspects: environmental issues, employee concerns, social concerns, respect for human rights and the fight against bribery and corruption. In the "Animal Welfare" section, zooplus AG reports on a sixth aspect, as the protection of animal rights is a major concern of zooplus customers and, at the same time, a decisive non-financial factor influencing the company's success.

Within the scope of an analysis conducted in 2018, an independent evaluation was prepared describing all of the relevant non-financial aspects for zooplus AG that are essential for sustainable business development from both from a Group perspective and the perspective of the respective external target groups (customers, business partners, employees, shareholders, suppliers and the general public). The Management Board and the responsible departments took part in this evaluation. The impact on the business performance as well as the impact of our business activities is presented in the graph below:

The materiality analysis and risk assessment were prepared in accordance with the requirements of the CSR Directive Implementation Act (CSR-RL-UG). In accordance with section 315b (1) sentence 3 HGB, there is no reference made to the information contained in the group management report.

The standards of the Global Reporting Initiative (GRI) served as a guideline in selecting the key figures but were not used in providing further details. This pertains, above all, to the information on working conditions, as well as to the information on diversity and equal opportunities.

The concepts presented here apply equally to the Group and zooplus AG. Any diverging information is indicated. The Group includes the parent company zooplus AG, as well as all domestic and foreign companies included in zooplus AG's scope of consolidation in accordance with IFRS 10. References to information outside of the group management report are made to provide additional information and are not part of the non-financial report.

The Non-Financial Report for the 2018 financial year was reviewed by the zooplus AG Supervisory Board. On behalf of the Supervisory Board, the auditing company PricewaterhouseCoopers GmbH WPG audited this Non-Financial Report in accordance with the ISAE 3000 (Revised) audit standard with limited assurance. Here we refer to the audit opinion starting on page 33 of the Annual Report.

For the presentation of the material risks required by the CSR Directive Implementation Act, a mixed analysis of gross and net risks was chosen. To the extent they are material, the potential negative effects of zooplus AG's business activities on non-financial matters (gross risks) are explained for each situation. The approach pursued and presented here by zooplus AG for avoiding or minimizing these effects, leads to the conclusion that there are no non-financial (net) risks within the company as defined by the CSR Directive Implementation Act.

Business Model

zooplus AG is Europe's largest specialized online retailer of pet supply products in terms of sales, and by far the market leader in its segment. The company's product range of approximately 8,000 items specializes in pet food and accessories in all of the major pet segments.

For a more detailed description of the business model, please refer to the section "Group business model" beginning on page 36 of this Annual Report.

Environmental Issues

Environmental Standards within the Supply Chain

The cultivation and further processing of raw materials for animal feed and pet accessories can be linked, in some cases, to major environmental burdens. Soil degradation, climate damage and loss of biodiversity can all result from a lack of environmental standards in the production or extraction of raw materials for products sold by zooplus.

Around 14% of the palm oil used in Germany are used to produce food for livestock and pets. Only about 15% of this palm oil are derived from sustainable cultivation.[1] The production of palm oil, especially in Southeast Asia, is often associated with the loss of rainforest, thereby posing a threat to animals' natural habitats. In addition, large amounts of CO_2 are emitted through the exposed tropical soil. A common ingredient in pet food is fish. Overfishing has also

[1] https://www.forumpalmoel.org/imglib/downloads/20160927_Palmoel-in-Deutschland_Endbericht.pdf

been linked with long-term adverse effects on ecosystems. The same applies to the raw material wood, which is mainly processed for pet accessories. For this reason we have made it our goal to contribute to the conservation of resources through responsible procurement.

As an online retailer, zooplus itself does not manufacture any pet food or accessories but, instead, purchases them directly from international brand manufacturers. zooplus AG's private label brands and those of its subsidiaries are also manufactured by contract manufacturers. To ensure that all suppliers minimize the potentially negative environmental impact of the commercial products they manufacture as much as possible, the Group requires suppliers to commit to the zooplus Supplier Code of Conduct as part of all supplier contracts. The Supplier Code of Conduct formulates values for direct suppliers as well as for their suppliers and subcontractors, which also apply equally to zooplus. The Code of Conduct requires contractors to adhere to these standards and continuously improve their environmental performance. Otherwise, zooplus reserves the right to end the business relationship. In the interest of protecting the environment and ecosystems, zooplus requires suppliers to comply with all applicable national environmental protection laws without exception and to strive for the fulfillment of international environmental standards. The purchasing and legal departments, which report directly to the Management Board of zooplus AG, are responsible for the integration of the Supplier Code of Conduct into the supplier contracts. The compliance with the Supplier Code of Conduct at suppliers is regularly reviewed by zooplus AG.

To ensure that the timber products marketed by zooplus on the European Single Market for the first time have been legally sourced, the company complies with the due diligence requirements defined by the EU Timber Regulation by requiring clear evidence from suppliers of the entire procurement path. zooplus AG works together with external experts for the implementation.

In the 2018 financial year, the Supplier Code of Conduct was contained in all supplier contracts concluded with both direct domestic and international suppliers. About 95% of the procurement volume stem from Europe. Other sourcing countries include mainly Canada, China and Thailand.

Environmentally Friendly Logistics

zooplus generally assumes that online retailing with a low return rate has ecological advantages compared to purchases made in bricks-and-mortar stores.[2] These advantages stem from concentrating the stock of goods in central warehouses and pooling the transportation of goods to the end user, which avoids much of the traffic in cities and municipalities. The majority of greenhouse gas emissions directly generated by online retailing arise in the logistics processes – that is, during transportation from the manufacturer to the logistics centers, as well as the shipping to the customer. The transportation sector as a whole accounts for about a quarter of global energy-related CO_2 emissions. [3] In view of the expected growth rates in online retailing, our goal is the environmentally friendly design of logistics processes as our contribution to the global fight against climate change.

For this reason, and for reasons of cost efficiency, zooplus employs its own team exclusively for the coordination and further development of the logistics and distribution structure. The optimized flow of goods and speed of delivery are decisive leverage in improving process efficiency and customer satisfaction, which also makes them crucial drivers of business success. Both merchandise management and inventory management are handled by the company's own systems. The European-wide dispatch to the customer takes place over domestic and international parcel services. zooplus does not operate its own infrastructure to deliver packages to customers but instead works together with the respective service providers. Together with these services providers, zooplus works to continually optimize the efficiency of its logistics centers and improve the flow of goods.

[2] https://www.sciencedirect.com/science/article/pii/S0959652614006489
[3] http://www.iea.org/publications/freepublications/publication/CO2EmissionsfromFuelCombustionHighlights2017.pdf

zooplus supplies customers in a total of 30 European countries. Roughly 29% of the transportation are processed in German-speaking countries. In addition, through the establishment of fulfillment centers in the most important international markets (including the Netherlands, Belgium, France, Spain, Poland and Great Britain), we have optimized the transportation routes to the end customer in various European countries. zooplus has been using so-called "parcel routing" since 2012. It is an algorithm-based concept that ensures that logistical routes within the zooplus logistics network are optimized and customer orders are sent, for example, using a method that avoids unnecessarily dividing the shipment into several packages to avoid additional transportation.

In order to maximize the capacity utilization of the individual parcels and, in turn, the delivery vehicles, zooplus has also developed a system called "parcel builder". This system is a proprietary system for selecting suitable packaging sizes and formats and ensures that parcel service providers can take as many parcels as possible in one trip. This also reduces packaging waste and empty volume in packages is avoided as much as possible.

Generally, a major driver of the CO_2 intensity in the mail-order business is the high proportion of returned goods that need to be transported from the customer back to the retailers' logistics centers. Unlike online retailers in other segments, however, zooplus AG is hardly affected by returns due to its product mix. Size and the individual tastes of customers play a minor role in the purchase of pet food and pet supplies. In the 2018 financial year, as in previous years, the return rate at zooplus was at a very low level of 1%.

As an innovative and disruptive company, zooplus strives to reduce its CO_2 emissions and to help customers do the same by purchasing the goods at zooplus rather than purchasing through traditional procurement channels. For this purpose, a team of employees from various departments was formed in 2018 to develop a Carbon Footprint Action Plan that includes short-, medium- and long-term measures for recognizing and reducing CO_2 emissions. As part of this project, it was determined that the internationally recognized Greenhouse Gas Protocol would be the method used to recognize the carbon footprint along zooplus' value chain. In addition to optimizing those variables we have an influence on (for example, parcel routing decisions and the use of sustainable packaging materials), we also engage in an active exchange with our existing service providers. When searching for new service providers, we explicitly consider their approaches to climate-friendly logistics.

Animal Welfare

Product Safety

Along with the growing "humanization" of pets, an issue that is increasingly important is the quality and safety of pet food and accessories. Pets are often given the same status as other family members, and their health also depends on a balanced diet free from residues and contaminants. Our aim is therefore to make sure our products undergo quality assurance checks to ensure that there is no pet food contamination as a result of unsuitable preservatives, heavy metals, microorganisms or toxins. The same applies to accessories which – without product safety standards – can turn out to have serious effects on animal welfare.

In order to prevent this, manufacturers carry out their own corresponding product safety tests as part of their respective nationally applicable due diligence obligations, or they commission specialized laboratories. Corresponding certificates or proof must be provided by the zooplus suppliers. We comply with legal obligations by making the safety data sheets available. For our private label brands and direct purchases, we routinely request to see the audits and certificates of our suppliers. zooplus is also currently working together with a variety of institutes to further ensure product safety. Pet food is tested by Intertek and TÜV and, particularly when importing goods from China, TÜV China is commissioned to conduct pre-shipment tests in cooperation with TÜV Germany.

zooplus mitigates product safety risks that can arise from improper storage, packaging or shipping using its own employees. These employees are posted at the service operators' fulfillment centers in order to ensure compliance with all quality assurance standards. The quality assurance standards are laid out in our contracts with logistics partners. zooplus has also set up clearly defined recall procedures when product safety risks are discovered in products already in circulation.

In the 2018 financial year, there were no recalls of our private label products. Supplier-initiated product recalls from well-known brand manufacturers are managed in accordance with processes defined by zooplus.

At zooplus, animal welfare also includes the support of selected animal welfare organizations and animal protection organizations. zooplus enables its customers to donate the bonus points acquired for their zooplus purchases to selected animal organizations. In 2018, approx. 215,000 customers took part in this campaign and donated a total of 26 million bonus points to 87 different organizations. zooplus also sells a special private label under the name "zoolove", where 10% of sales are donated to selected animal organizations. zooplus presents different animal organizations in different countries at regular intervals and enables zooplus customers to vote for their selection. In 2018, about EUR 163,000 was donated to various animal organizations via the private label "zoolove".

In the next several years, zooplus will continue to expand its "zoolove" private label and, as a result of the company's overall growth, it will continue to make substantial donations to selected animal welfare organizations as yet another way to promote general animal welfare.

Social Concerns

Product Transparency

Next to product safety aspects, the manufacturing conditions, origin and transparency of product ingredients play an increasingly important role for zooplus customers. Increasingly, product-specific information, such as the effect of ingredients on animal welfare or environmental production conditions, is a part of the purchasing decision. The technological possibilities to provide extensive product information in online retailing can make a particularly important contribution to promoting sustainable and responsible consumption.

This is why zooplus attaches significant importance to providing its customers with the most complete product information possible. Providing this information occurs to a far greater extent with an online shop than is possible in bricks-and-mortar retail, where only product packaging serves this purpose. Interested customers can find information on any type of organic certification and an indication of source for each product including a complete list of ingredients on the zooplus website. The scope and specific content of this information are prescribed not only by law but are also a requirement in our contracts with suppliers. In addition to this information, zooplus also shares nutritional tips for pets with its customers, including responsible consumption and facilitates a transparent exchange of customer ratings for individual products.

zooplus believes that customer satisfaction and retention in the future will be even more dependent on the preparation and provision of product-related information including information on sustainability issues and animal welfare, among others. Over and above the legal requirements, customer satisfaction surveys conducted at least once per year are increasingly asking for customer opinions about this issue in order to be able to provide customers with even more guidance and product information in the future. zooplus therefore expects the information provided by online services will continue to improve over the next few years.

Employee Concerns

Working Conditions

The number of employees has risen steadily in the past several years. In the 2018 financial year, an average of 635 people were employed directly at zooplus. The number of zooplus employees has increased on average by around 20% annually since 2012. zooplus' business success largely depends on the commitment, knowledge and performance of its employees. zooplus invests in a work environment that promotes innovation, team spirit, commitment and motivation so that it is able to attract and retain qualified employees. This also benefits the employees themselves in that they can personally develop their skills at zooplus through individual advanced training courses and participate in the company's success through variable salary components.

The employees of zooplus' logistics partners, who are sometimes exposed to greater physical strain, also make an important contribution to the business success. These include, for example, packaging and the lifting of heavy goods. The fulfillment centers operated by zooplus' partners employed roughly 2,600 employees in the 2018 financial year. In contrast to the employees directly employed by zooplus, these employees are typically in the low-wage segment. The same applies to the employees of logistics service providers. In order to ensure the best possible working conditions for the employees of logistics partners within the scope of zooplus' power, the company works with these service providers on the basis of long-term contracts with minimum employment-related requirements. In addition to occupational health and safety regulations, these requirements also include the payment of the country's respective minimum wage. The quality managers in the fulfillment centers employed by zooplus are also asked to pay particular attention to the occupational health and safety of the local employees. To make heavy physical work easier, zooplus and its partners in the fulfillment centers regularly test the introduction of digital and mechanical work facilitation for lifting heavy goods, among others.

The human resource department at zooplus supports the company's organizational strategies with specially designed personnel tools and measures. In a highly competitive environment for excellent employees in all areas, zooplus AG always pays market salaries. Employee compensation consists of fixed and variable salary components, as well as intangible benefits, which may vary according to country-specific standards.

In order to create a work environment that is equally employee-friendly and performance-oriented, zooplus initiated a pilot project in the past financial year involving modern workstation equipment (mobile devices, acoustic and visual optimization of the room), which will be continued with the leasing of new additional office space and state-of-the-art equipment. Preventive measures are used to promote employee health. These measures include offers such as flu shots, eye examinations, ergonomic office equipment and access to fitness centers, which the company largely subsidizes for all employees.

The management tools at zooplus combine the general performance evaluation with the personal target assessment and include the employee's progress in his/her current position. These individual discussions between the manager and the employee take place at least once or twice a year. These evaluations are intended to support the company's claim to having a performance-oriented corporate culture while at the same time supporting the employee individually and optimally with regard to personal challenges.

In addition, part of the zooplus DNA is that employees are allowed to bring their dogs to the workplace to a limited extent as part of the company's pet policy. Employees also benefit from employee discounts when purchasing zooplus products.

The employee turnover rate at zooplus in the past financial year was 19%, or one percentage point lower than in the prior year.

Diversity and Equal Opportunity

Diversity in the context of human resources was recognized as a key success factor by zooplus very early on. zooplus went on to define strengthening the company's diversity as one of its objectives. The interaction of people with different ideas, strengths, skills and cultural backgrounds leads to optimal solutions for upcoming challenges. For example, zooplus has 53 different nationalities across all locations. With an average age of 35 years, zooplus employees tend to be younger than employees at other traditional retailers.

Diversity is an integral part of zooplus' corporate culture and has been incorporated into all personnel development and recruitment measures as a priority of the company's personnel strategy. The fair balance of female and male employees has thus far made the formulation of definite quota targets seem unnecessary. Despite this, the company has stated in its Code of Conduct that any form of employee or occupational discrimination will not be accepted. Instead, recruitment and promotion decisions are based solely on an individual's abilities and not personal characteristics such as gender, race, religion or belief.

Even though the proportion of female employees in the company was 45% in 2018, the equal representation of women in management positions remains a challenge that the company intends to solve in the coming years. Currently, women hold 37% of the executive positions below the Management Board level at the company.

Respect for Human Rights

Social Standards

The cultivation and further processing of raw materials for pet food and pet accessories may not only be accompanied by ecological burdens but also inadequate labor and social standards. For example, the production of intermediate meat and fish products in Southeast Asia, as well as accessories with textile components may be associated with human rights violations. Specific forms of forced labor and child labor in the countries of origin of the intermediate products of the goods sold by zooplus have been repeatedly discussed in the media. Although zooplus has not been linked to these types of human rights violations, the company is aware of its responsibility to respect human rights along its entire value chain.

The most important tool for preventing human rights abuses is the Code of Conduct. It obliges zooplus, its suppliers and their contractors to unconditionally comply with international human and labor law requirements. Compliance with the Code of Conduct is ensured through social audits as part of the due diligence and the clearance of business partners.

In the years to come, the issue of social audits will be further expanded, and external partners shall be involved in the process.

Combating Bribery and Corruption

Corruption and Price Fixing

The extensive network of supply chains and the global sales markets give rise to the risk of unfair agreements in retailing. Corruption and antitrust incidents can distort market conditions and thereby hinder fair competition. This then has an impact both on the individual consumer and economic performance as a whole. The detection of such incidents can sometimes lead to high fines and a significant loss of reputation. zooplus counters this danger through responsible and lawful corporate governance.

The responsibility for preventing corruption and avoiding price fixing lies with the legal department, which reports directly to the Chief Financial Officer. A clear definition of what is and what is not allowed provides a transparent framework. This is the reason binding principles are laid down in zooplus' Code of Conduct, which forms a model not only for suppliers but also for all employees. This Code of Conduct is augmented by annual training courses for the relevant employee groups to ensure that these groups are sufficiently aware of corruption and price fixing risks. In addition, the principle of double checking also applies to the procurement department. A supplier is always looked after by at least two employees. Employees in the purchasing department are also assigned to other suppliers in a cycle determined individually. In the event of a violation, all zooplus employees can contact the whistleblower hotline anonymously. The violation is then immediately analyzed and its causes eliminated.

No lawsuits against zooplus for unfair behavior existed in the financial year. In addition, there were no reports of suspicion to the whistleblower hotline. zooplus intends to ensure that this behavior continues going forward by holding regular compliance awareness campaigns.

Data Protection

As an online retailer, zooplus receives vast customer data as part of the business process. Insecure data storage and processing may violate the right to informational autonomy and the protection of personal rights and privacy. The numerous data scandals of well-known companies in the past have increasingly focused public attention on how companies handle their data. The publication of incidents can lead to huge losses in sales and sustainably harm consumer confidence. Protecting personal data is therefore a top priority at zooplus and the reason it also regularly carries out penetration tests with its external partners.

Legal compliance with data protection regulations, directives and procedural instructions is ensured by the external data protection officer who is supported by a data protection coordinator from the IT area as an internal contact person. In the course of fully implementing the General Data Protection Regulation (GDPR) during the year 2018, zooplus made it a priority to revise the zooplus data protection directive, to which all employees are committed. Our external data protection officer is also obliged to train employees at regular intervals. When an incident occurs, it is carefully investigated. zooplus is also supported by external service providers who securely manage the payment data and have the corresponding PCI conformity certifications.

In 2018, no formal proceedings by the data protection authorities against zooplus were initiated, and requests from data protection authorities could be answered by comments and possible adjustments. Under the new GDPR, zooplus, together with an external partner, has had its data protection processes audited to ensure that the processes continue to meet all of the relevant requirements to protect data as best as possible.

Independent Practitioner's Report on a Limited Assurance Engagement on Non-financial Reporting

To zooplus AG, München

We have performed a limited assurance engagement on the combined separate non-financial report pursuant to §§ (Articles) 289b Abs. (paragraph) 3 and 315b Abs. 3 HGB ("Handelsgesetzbuch": "German Commercial Code") of zooplus AG, Munich, (hereinafter the "Company") for the period from 1 January to 31 December 2018 (hereinafter the "Non-financial Report").

Responsibilities of the Executive Directors

The executive directors of the Company are responsible for the preparation of the Non-financial Report in accordance with §§ 315b and 315c in conjunction with 289b to 289e HGB.

This responsibility of Company's executive directors includes the selection and application of appropriate methods of non-financial reporting as well as making assumptions and estimates related to individual non-financial disclosures which are reasonable in the circumstances. Furthermore, the executive directors are responsible for such internal control as they have considered necessary to enable the preparation of a Non-financial Report that is free from material misstatement whether due to fraud or error.

Independence and Quality Control of the Audit Firm

We have complied with the German professional provisions regarding independence as well as other ethical requirements.

Our audit firm applies the national legal requirements and professional standards – in particular the Professional Code for German Public Auditors and German Chartered Auditors ("Berufssatzung für Wirtschaftsprüfer und vereidigte Buchprüfer": "BS WP/vBP") as well as the Standard on Quality Control 1 published by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany; IDW): Requirements to quality control for audit firms (IDW Qualitätssicherungsstandard 1: Anforderungen an die Qualitätssicherung in der Wirtschaftsprüferpraxis - IDW QS 1) – and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Practitioner´s Responsibility

Our responsibility is to express a limited assurance conclusion on the Non-financial Report based on the assurance engagement we have performed.

Within the scope of our engagement we did not perform an audit on external sources of information or expert opinions, referred to in the Non-financial Report.

We conducted our assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised): Assurance Engagements other than Audits or Reviews of Historical Financial Information, issued by the IAASB. This Standard requires that we plan and perform the assurance engagement to allow us to conclude with limited assurance that nothing has come to our attention that causes us to believe that the Company's Non-financial Report for the period from 1 January to 31 December 2018 has not been prepared, in all material aspects, in accordance with §§ 315b and 315c in conjunction with 289b to 289e HGB.

In a limited assurance engagement the assurance procedures are less in extent than for a reasonable assurance engagement, and therefore a substantially lower level of assurance is obtained. The assurance procedures selected depend on the practitioner's judgment.

Within the scope of our assurance engagement, we performed amongst others the following assurance procedures and further activities:

- Obtaining an understanding of the structure of the sustainability organization and of the stakeholder engagement
- Inquiries of personnel involved in the preparation of the Non-financial Report regarding the preparation process, the internal control system relating to this process and selected disclosures in the Non-financial Report
- Identification of the likely risks of material misstatement of the Non-financial Report
- Analytical evaluation of selected disclosures in the Non-financial Report
- Comparison of selected disclosures with corresponding data in the consolidated financial statements and in the group management report
- Evaluation of the presentation of the non-financial information

Assurance Conclusion

Based on the assurance procedures performed and assurance evidence obtained, nothing has come to our attention that causes us to believe that the Company's Non-financial Report for the period from 1 January to 31 December 2018 has not been prepared, in all material aspects, in accordance with §§ 315b and 315c in conjunction with 289b to 289e HGB.

Intended Use of the Assurance Report

We issue this report on the basis of the engagement agreed with the Company. The assurance engagement has been performed for purposes of the Company and the report is solely intended to inform the Company about the results of the limited assurance engagement.

The report is not intended for any third parties to base any (financial) decision thereon. Our responsibility lies only with the Company. We do not assume any responsibility towards third parties.

Munich, 14 March 2019

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Hendrik Fink ppa. Barbara Wieler
Wirtschaftsprüfer
German public auditor

Group business model

Business model

zooplus AG is Europe's largest specialized online retailer of pet supplies in terms of sales and the clear market leader in its segment by a wide margin. In 2018, the European market for both online and brick-and-mortar retailers reached gross sales of EUR 26 bn. zooplus operates in this market in 30 countries as a pure Internet-based retailer. The company's product range features roughly 8,000 items focused on pet food and accessories in all of the major pet categories.

Track Record

From the time the company commenced operations in June 1999, it has successfully used the Internet as a platform for selling pet supplies. Over the past several years, zooplus has been continually expanding its business activities. Some of the key milestones the company has achieved on this dynamic growth path include broadening the product portfolio, penetrating new European markets through early targeted international expansion, completing its initial public offering in 2008 and the company's subsequent inclusion in the SDAX index. In 2017, zooplus' sales significantly surpassed EUR 1 bn for the first time. In 2019, zooplus AG will be celebrating its 20th anniversary and is expecting sales to reach more than EUR 1.5 bn.

International presence

zooplus has been pursuing a growth-oriented internationalization strategy within Europe since 2005. In taking this approach, the company has been able to firmly establish itself and achieve critical size not only in the German-speaking market but also in France, Italy, Spain, the Netherlands, Great Britain and Poland. Together these countries represent the seven largest European markets in terms of volume, which makes them of key importance to zooplus AG. Based on the company's own estimates, it believes it is the specialized online leader in these markets. zooplus AG also operates in 23 other European countries in addition to the markets mentioned. The company's pan-European structure with sales activities in 30 countries and a European-wide logistics network for delivering pet supplies clearly differentiates it from the major competitors both in the online and brick-and-mortar segments.

Products are shipped to customers from seven large central logistics hubs in Hörselgau, Germany; Tilburg, the Netherlands; Wroclaw and Krosno, Poland; Coventry, UK; Chalon-sur-Saône, France; and Antwerp, Belgium. zooplus also has an additional six medium-sized European logistics centers integrated into this network. This sophisticated European-wide logistics and fulfillment network serves international markets quickly and efficiently. In pursuit of the company's planned future growth, zooplus AG will continue to expand its existing logistics capacity in the years ahead to provide the logistics necessary and to further accelerate the speed of deliveries to its customers.

Past experience shows how important it is to have a localized Internet presence – and customers have grown to expect this. This is the reason zooplus AG operates local language websites throughout Europe in 25 markets offering a broad range of regionally oriented pet products. In addition to the company's website and its comprehensive range of around 8,000 products, zooplus also operates under its bitiba brand, which is based on a discount concept offering a narrower range of products in 14 countries alongside the zooplus brand. At the end of 2018, zooplus also launched a new website with the name "medoca", focused primarily on the premium segment and additional services. zooplus intends to offer an ever-growing range of pet-related services in the future. One example is the extensive veterinary search engine that is already up and running in two countries today. Another is zooplus' cooperation in Germany with the insurer Allianz AG, through which it now offers health insurance policies for pets.

zooplus' European market presence

- Established, country-specific webshops
- Delivery via other localized shops

Years represent date of market entry
* 2005
** 2008

The zooplus value chain

2018 was another year in which zooplus AG achieved double-digit sales growth in all markets. Going forward, the company's growth strategy will continue to focus on systematically penetrating existing international markets. With operations in 30 countries, zooplus AG covers nearly the whole of Europe and intends to keep Europe at the center of its activities.

The core of the zooplus internationalization strategy is multilingual, tailored customer service combined with a variety of international payment systems and access to an advanced logistics infrastructure through parcel service providers. This model has proven to be efficient, competent and highly scalable at the same time. zooplus AG has highly motivated, well-trained employees at all locations it can rely on who guarantee the sustainable success of its business model.

Creating flexible, high-performance and effective operating structures that can accommodate the company's strong growth has always been and will continue to be a key consideration in formulating the business model. zooplus AG always takes these objectives into account in all of its core operating areas.

„The most important part of our IT-based value chain? Satisfied costumers! The sales retention rate of 95% speaks for itself. "

Ulrike, IT

Human Resources

zooplus firmly believes that its success largely depends on the commitment, knowledge and performance of its employees. This is why the company invests consistently in creating a work environment that encourages innovation, team spirit, commitment and initiative. The Human Resources Department employs specially designed tools and campaigns to reinforce zooplus' corporate strategy.

Further information on Human Resources can be found in our Non-Financial Report starting on page 25.

„For success in e-commerce, we need people who think out of the box. For Human Resources this means convincing the right people from all over the world of zooplus as an employer and offering them attractive and innovative working conditions. Because in the end, it's the people who make the difference."

Claudia, Human Resources

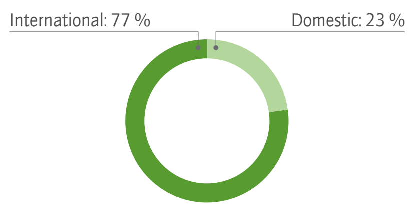
Procurement and product range

zooplus has established extensive international procurement operations, which have played a pivotal role in creating its vast product range. From a customer perspective, zooplus AG offers a broad and compelling product range for all types of pets and across several different product categories, which also addresses the local preferences of the individual European markets. zooplus offers an extensive selection of pet supplies containing around 8,000 food and accessory products for dogs, cats, small animals, birds, fish and horses. This wide range of brands and products includes everyday staples such as recognized brands of pet food augmented by the company's private label and specialty articles such as care products, litter, toys and other accessories. Cats and dogs are the most popular categories of pets, which is the reason the company focuses on branded food and related accessories for dogs and cats.

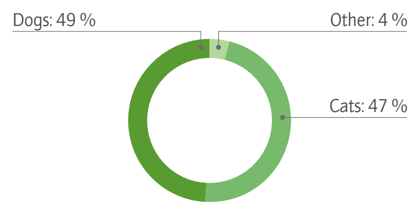
„We further expanded our private label portfolio in 2018. Our products are gaining a very high level of acceptance among an increasing number of customers."

Hans-Georg, Private labels

Share of domestic / international sales



Product portfolio (share of sales)



To be able to offer this extensive product range with the highest degree of value for money available, it is essential for the company to maintain close strategic relationships with all key suppliers and manufacturers throughout Europe. zooplus AG sources all key products directly from the respective manufacturers. Procurement is carried out internationally using more than 200 suppliers. zooplus AG works closely together with its suppliers so that it can expand its product range to keep in line with the evolution and demands of the market and appeal to the tastes of local customers. zooplus AG places high importance on brand strength and supplier innovation because a key factor for consumer acceptance is maintaining a portfolio of leading domestic and international brands.

zooplus AG and the zooplus Group companies are committed to shaping their business relationships and purchasing high-quality goods and services in a manner that meets the company's high ethical, moral and social values. zooplus is committed to ensuring that it sources its goods and services only from suppliers who are committed to upholding and adhering to ethical codes of conduct. The zooplus Supplier Code of Conduct sets out the requirements and expectations that all suppliers and their affiliates (suppliers, factories and approved subcontractors) must meet in order to conduct business with zooplus AG and its associated companies.

Further information can be found in our Non-Financial Report as of page 25.

„An important element of our success is our partnership with all leading premium brands in the pet segment."

Eva, Procurement and category management

zooplus served roughly 7 million active customers in 2018. A compelling product range, attractive prices and reliable, fast delivery, guaranteed by a high-performance infrastructure, has enabled zooplus over the past year to continue to systematically expand its clear number 1 position in the online retailing of pet supplies in Europe.

Private label business

zooplus augments its product range in key areas with its continually evolving private label strategy. The company sells an exclusive range of its own private label brands offering customers a compelling range of products. This range includes premium dry and wet foods for dogs and cats under the Concept for Life, Wolf of Wilderness, Wild Freedom, Purizon, Rocco, Cosma and Feringa brands, as well as the company's other private brands (Lukullus, Briantos, My Star, Smilla, Tigerino and others). The company places special strategic importance on consistently differentiating products within existing private label brands to create robust, long-term core brands. The products and brands already launched have received a high level of acceptance from customers and increase customer loyalty. Private labels play a prominent role in the company's overall strategy. In the 2018 financial year, sales of private label products continued to grow at an extraordinary pace reaching sales of close to EUR 170 m and rising to roughly 14% of sales of pet food and litter. In addition to private label pet food and cat litter, zooplus also sells pet accessories, such as cat scratching posts, dog beds and toys created especially for zooplus. In the years ahead, the company expects the growth of its private label business to continue to outpace other areas, leading to an increase in the percentage share of sales derived from private label products, enabling zooplus to differentiate itself even more from its competitors. The margin advantage of private labels is likely to become the key driver of the gross margin in the medium term, as a majority of the margin advantage is being reinvested in the further expansion of zooplus' private label brands.

Dogs

Rocco	**Wet food and snacks** – Premium food made of 100% fresh meat for breed-specific diets
Lukullus	**Dry and wet food and snacks** – Natural foods for discerning dogs: natural menus, diverse ingredients, manufactured in a conscientious manner
Wolf of Wilderness	**Dry and wet food and snacks** – wild and free! Breed-appropriate, grain-free pet food inspired by the wolf's natural diet
Wild Elements	**Dry food** – American Style Dog Food Grain-free dry dog food with multiple types of protein and fresh US beef
briantos	**Dry food** – The right food for all stages of life and nutritional needs – "made in Germany" – offering superior value for money
Barkoo	**Snacks** – Experts in snacks: A large selection of highly popular snacks for entertainment, grooming or as a reward, featuring the best value for money
DogMio	**Snacks** – Dog snacks offering unbeatable value for money
zooplus bio	**Wet food** – Organic dog food with raw ingredients from certified local organic farms and the humane treatment of animals
zooplus classic	**Wet food** – Exclusively made of pure muscle and quality innards for a juicy, meaty taste, made in Germany
zooplus Selection	**Wet food** – Select ingredients and premium meat, with recipes ideally adapted to the dog's particular life phase

Cats

my star	**Wet food** – Perfectly tailored to a cat's variety of tastes from the contents and the composition to the decorative packaging
Cosma	**Wet food and snacks** – High-premium food made of 100% fresh meat for breed-specific diets
Smilla	**Dry and wet food and snacks** – Premium food "made in Germany" ideal in every stage of life
Catessy	**Wet food and snacks** – A varied product range with unusual flavors and always at low prices
Feringa	**Dry and wet food** – Premium food: made with love, just like homemade and grain-free
Tigerino	**Cat litter** – Various types of cat litter offering excellent value for money
Wild Freedom	**Dry and wet food** – wild and free! Pet food inspired by the wildcat's natural instincts

Dogs and cats

Concept for Life	**Dry food** – With Concept for Life, dogs and cats receive nutrition optimally adjusted for their lifestyle, age and special needs. Tailored to life!
Purizon	**Dry food** – High-premium nutrition containing 70% selected animal ingredients, 30% fruits and vegetables and is grain-free
	Dry and wet food, snacks and litter – Hypoallergenic pet food with the best ingredients for a breed-specific diet
zoolove	**Food, snacks and accessories** – Helping can be so simple: 10% of the purchase price of the zoolove products is donated to animals in need

Logistics

zooplus AG's logistics hubs are located in Hörselgau, Germany; Tilburg, the Netherlands; Wroclaw and Krosno, Poland; Coventry, UK; Chalon-sur-Saône, France; and Antwerp, Belgium. Medium-sized logistics centers in Strasbourg, France; Mühldorf, Germany; Boleslawiec, Poland; Cabanillas del Campo, Spain; and Istanbul, Turkey complement these hubs for certain types of orders. There is also a smaller specialized logistics location in Jirikov, Czechia, focused on non-prescription veterinary medicines that delivers select products to specific target markets. Key locations operate in cooperation with four international logistics partners who are responsible for the operative handling of fulfillment activities. The logistics partners provide almost all of the investment necessary to set up the logistics centers. As a result, zooplus incurs very little investment costs (CAPEX), with most of these costs for the center in Coventry, UK. The compensation paid to logistics partners is mostly variable and depends on the level of volumes handled. All logistic center operations are closely synchronized within a production network, which is a key driver of efficiency.

Although the logistics operations have been outsourced, all core fulfillment processes are still managed centrally by zooplus AG and represent proprietary expertise. The company employs a designated in-house team to coordinate and develop the logistics and distribution operations. Seamless material flows, packaging efficiency, quality and speed of delivery of the respective parcel offer important leverage for improving cost efficiency and maximizing customer satisfaction – two factors crucially important for the company's commercial success. Merchandise and inventory management are handled by the company's proprietary systems. Deliveries to customers across Europe are dispatched via domestic and international parcel service providers. Together with the respective service providers, zooplus is continuously working on optimizing efficiency in the logistics centers and improving the flow of goods.

In contrast to online retailers in other segments, zooplus AG rarely experiences customer returns. Customers know what their pets want – the size and particular flavor play only a secondary role. This is the reason the customer returns rate is at a very low level of around 1% – keeping the cost pressure from this area low.

„Our logistics capacity is ready for our continued growth. With new locations in the UK, Spain and Poland, we significantly expanded our capacities in 2018 and moved even closer to our customers."

Sandra, Operations

Logistics centers

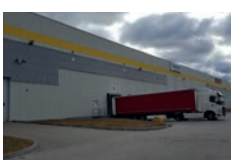
1 Tilburg

34,000 m²

2 Hörselgau

30,000 m²

3 Wroclaw



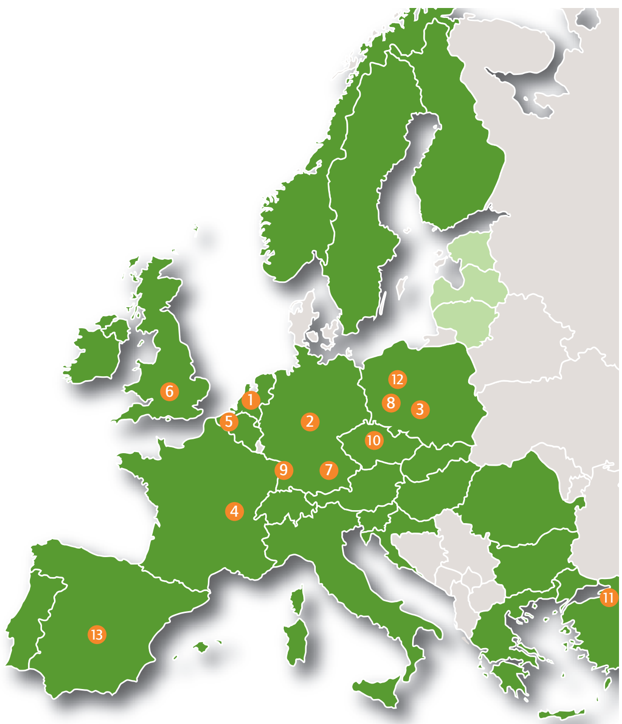
27,000 m²

4 Chalon-sur-Saône

21,000 m²

5 Antwerp

16,000 m²



6 Coventry

15,000 m²

7 Mühldorf am Inn

5,000 m²

8 Boleslawiec

10,000 m²

9 Strasbourg
8,000 m²

10 Jirikov
2,500 m²

11 Istanbul
3,000 m²

12 Krosno

42,000 m²

13 Cabanillas del Campo

8,300 m²

■ Established, country-specific webshops
■ Delivery via other localized shops

Technological infrastructure

The basis of zooplus AG's performance capabilities lies in the company's back-end operations. These include European central logistics operations, international merchandise management and an integrated pan-European technology platform for the targeted management of single local markets. All of the company's core areas including logistics and distribution, marketing, payments, selection, price management, procurement and finance are controlled centrally from the corporate headquarters in Munich. These structures enable the company to generate significant economies of scale from its continued dynamic growth.

zooplus AG is a technology-oriented Internet retailer. The new and ongoing development of core processes and other systems important for the business model is initiated almost exclusively in-house and carried out on a proprietary basis or with external help. zooplus AG has significantly expanded its internal development capacities for this purpose over the last two years, and at the end of 2018 had almost 200 employees at five European locations working on software development. This approach yields customized, highly flexible solutions that are even better tailored for a scalable business model and at an ever faster pace. External partners are always employed to augment the company's internal expertise and implementation capacity when in-house expertise is insufficient or unavailable. The company also uses standardized SAP software solutions in back office areas such as accounting.

Highly specific software solutions in all major areas of the company have been crucial to building zooplus AG's success and will continue to play a significant role in the company's achievement of its goals in the future. Business areas where highly specialized systems are used include:

- Price and margin management
- Logistics management and controlling
- Domestic and international payment processes
- Online marketing and customer acquisition
- Working capital management and procurement

A smooth and reliable link to domestic and international payment systems is of monumental importance for zooplus AG as an online retailer. Customers may choose almost any leading European payment system to pay for their orders. Sophisticated credit checks have helped the company maintain low default rates.

„In the IT department, more than 200 employees for infrastructure and software development not only optimize internal processes but also work intensively to ensure that we can continue to expand our market-leading position in the online sector in the future."

Lilantha, IT

Marketing and customer acquisition

Marketing and customer acquisition play a major role in the company's dynamic growth. zooplus customers can access the online shop via their desktop, tablet or smartphone or by using the zooplus app. Having these options, zooplus is well equipped to handle the increased the share of sales via mobile platforms. zooplus plans to continue investing in the expansion of its mobile platforms in the future. In 2018, slightly more than 30% of the company's total sales were conducted via mobile platforms, of which about 10% were attributable to the zooplus app. The prime focus for acquiring new customers is online marketing because the Internet is where the potential customers are and where they have easy, direct access to zooplus. The spectrum of classic online advertising, search engine marketing and optimization through affiliate networks, price comparisons and sector-specific online activities offer sufficient online marketing options. The company also employs a wide variety of social media channels, such as Facebook, Twitter, Instagram and YouTube. All activities are adapted to specific countries and regions so that zooplus, as a pan-European company, can acquire customers in the most effective way possible. The success of this approach is reflected in the low customer acquisition costs of just 2.2% of sales at zooplus AG in 2018. In light of the fact that business with new customers is growing at the same time, zooplus AG appears much more effective at acquiring customers than its competitors.

A user-friendly shopping experience across all devices – desktops, laptops, tablets and mobile devices.

These efforts attracted a total of 2.9 million new customers in 2018. Customer acquisitions are expected to remain high or increase even more to support the projected growth. It is not only important how many new customers are acquired but also how many of these new customers will go on to become long-term repeat customers. To promote repeat business, it is crucial that relationships with existing customers are maintained and that they receive outstanding service. zooplus AG's commercial success is ultimately based on turning new customers into satisfied repeat customers and establishing itself in the minds of these customers as the preferred supplier of pet products. The stable and attractive sales retention rate of loyal customers – driven by the recurring need for pet food – is a major source of long-term business success. In 2018, zooplus AG was able to continue to improve its level of customer loyalty and for the first time reached a currency-adjusted sales retention rate of 95 %. The activities already mentioned contributed to strong customer loyalty as did periodic special offers, loyalty programs, reactivation programs for dormant customer accounts and, above all, a thoroughly attractive price structure for an outstanding range of products and services.

Overwhelming customer satisfaction

The company strives to maintain its position as the unmistakable quality and service leader among competitors in terms of customer satisfaction and continuously enhances its range of products and services. zooplus carries out routine comprehensive customer surveys and relies on independent studies to confirm the high level of customer satisfaction with zooplus AG's offers. In 2018, zooplus was ranked as one of the top ten out of 84 of the leading online and brick-and-mortar retail brands in Germany in the retail index sponsored by OC&C Strategy Consultants. Customers evaluated the respective retailers using a range of categories. In the category of customer service, zooplus even took first place among all 84 companies, ahead of Amazon and dm drugstores.

„The good rankings in external customer satisfaction surveys serve both as recognition as well as an incentive. It's our aim to further expand the positive perception of zooplus."

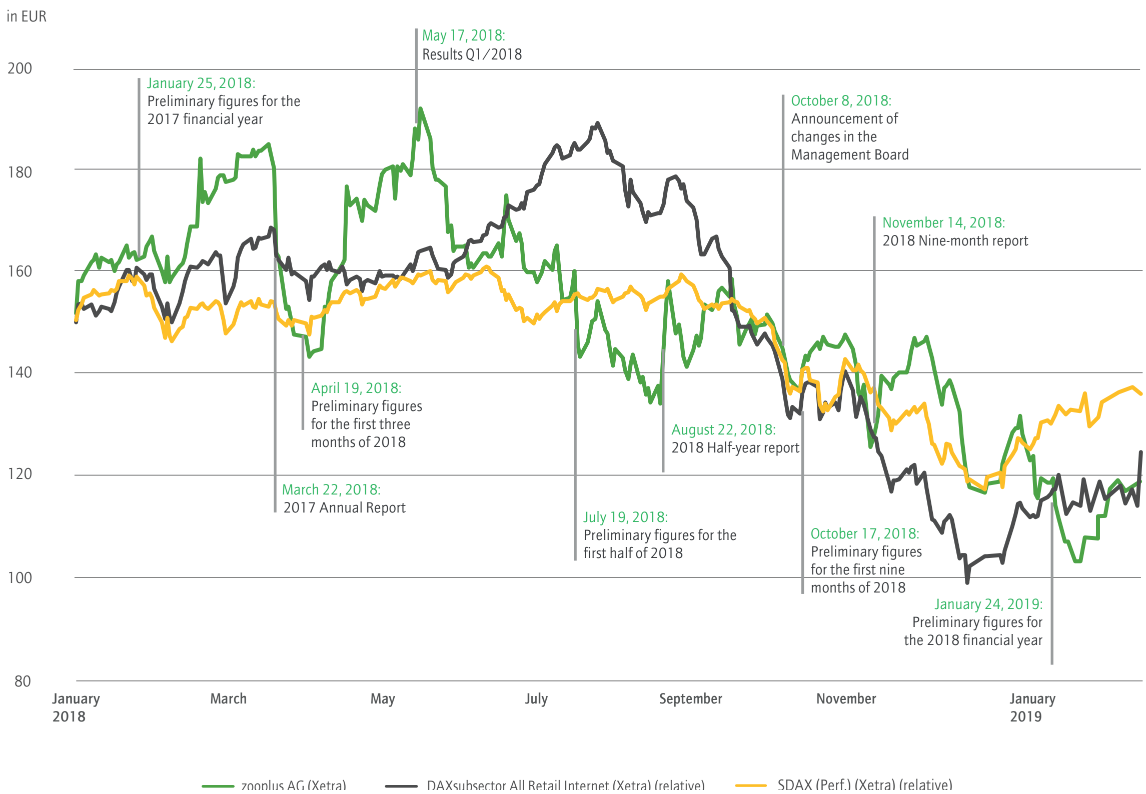
Silke, Sales & Marketing

Summary

Since its foundation, zooplus has grown to become the clear leader in online pet supplies in Europe. The company already ranks as the number 2 in the overall European market (brick-and-mortar and online retailing) after Fressnapf and ahead of Pets at Home, once again narrowing the gap to the market leader in 2018. zooplus customers benefit from the significant value created by the company's business model and particularly its attractive prices and fast and typically free delivery. zooplus AG benefits in the form of strong customer loyalty and a high rate of sales retention. zooplus AG has also become much more cost efficient in the past several years achieving considerable economies of scale in major cost items due to strong growth. zooplus AG believes it is today's cost leader in the pet supply segment versus brick-and-mortar and major online competitors. The company plans to add new chapters to its success story by further expanding its unique market position and building its reputation under the current growth strategy. zooplus AG plans to continue profiting from the strong growth projected for the online retailing of pet supply products and services.

The zooplus AG share

Stock chart zooplus AG: January 2, 2018 to February 28, 2019



Source: Deutsche Börse

The share

zooplus AG shares were admitted for trading on the Frankfurt Stock Exchange in the Entry Standard segment on May 9, 2008. Almost one and a half years later, on October 22, 2009, the company successfully moved to the Prime Standard segment, which has the most stringent transparency and disclosure requirements in Germany. After an uninterrupted rise in the company's market capitalization and trading volume, zooplus AG entered the SDAX on June 29, 2011.

2018/19 share performance

2018 was a challenging year for the stock markets. Rising US interest rates, concerns about a slowdown in economic growth and political factors such as the US-China trade dispute, the ambiguity surrounding a deal or no-deal Brexit, as well as budget negotiations between the EU and Italy, weighed on sentiment in the capital markets. Against this background, the German indices DAX (– 18.3%), MDAX (– 17.6%), SDAX (– 20.0%) and TecDAX (– 3.1%) all lost ground in 2018 compared to their year-end close on December 29, 2017. zooplus shares closed at EUR 118.90 in Xetra trading on the last trading day of the year December 28, 2018. Compared to their year-end closing price on December 29, 2017 (EUR 150.30), the shares declined 20.9% during the past financial year and performed in line with the SDAX index. zooplus AG shares are not only a member of the SDAX index but also belong to the DAXsubsector All Retail Internet sector index, which saw an even steeper decline than the zooplus shares in 2018 and fell 30.1%.

zooplus shares reached their high for the reporting year on May 18, 2018 closing at EUR 191.80 on Xetra. The shares' low for the year was reached on February 1, 2019 at a closing price of EUR 104.20.

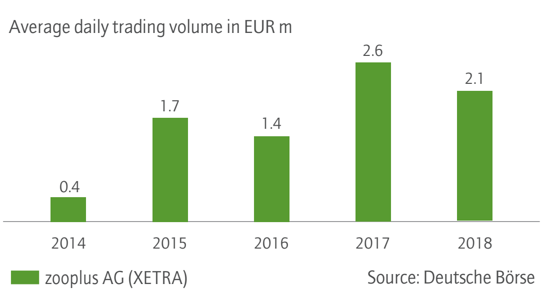
At the end of the first quarter on March 29, 2018, the shares of zooplus AG closed at EUR 148.00 in Xetra trading and went on to end the first half-year on June 29, 2018 at EUR 160.00. At the end of the third quarter on September 28, 2018, the shares closed at EUR 149.70.

At the beginning of 2019, zooplus shares were initially in an uptrend and closed in Xetra trading on January 10, 2019 at EUR 132.20. In the period thereafter, the share returned to its year-end 2018 level and as of the editorial deadline of this report on February 28, 2019, traded slightly below the year-end closing price at EUR 116.00. The SDAX and the DAXsubsector All Retail Internet index trended higher in the first two months 2019, increasing 13.6% and 18.4%, respectively, compared to the end of 2018.

Capital measures and market capitalization

zooplus had a total number of shares at the beginning of 2018 of 7,137,578. This number increased during the year due to the exercise of stock options and, as of December 31, 2018, equaled 7,143,278. As a result, zooplus ended the 2018 financial year with total share capital of EUR 7,143,278.00. Based on the Xetra closing price of EUR 116.00, the market capitalization of zooplus AG at the time of this report's editorial deadline on February 28, 2019 amounted to EUR 828.6 m.

zooplus share liquidity remains at a favorable level in 2018



As in the previous year, the average daily trading volume in the zooplus share exceeded EUR 2.0 m in the 2018 financial year. This level was more than five times the average trading volume in the shares in 2014 of EUR 0.4 m.

Key data

WKN	511170
ISIN	DE0005111702
Ticker symbol	Z01
Trading segment	Regulated market (Prime Standard)
Class of shares	No par-value ordinary bearer shares
Share capital in EUR as of December 31, 2017	7,137,578.00
Share capital in EUR as of December 31, 2018	7,143,278.00
Number of shares as of December 31, 2018	7,143,278
Initial listing	May 9, 2008
Initial issue price*	EUR 13.00
Share price as of December 29, 2017	EUR 150.30
Share price as of December 28, 2018	EUR 118.90
Percentage change (since December 29, 2017)	– 20.9 %
Period high	EUR 191.80
Period low	EUR 117.20

Closing prices in Deutsche Börse AG's Xetra trading system
* Taking into account capital increase from company resources in July 2011.

Investor Relations

Maintaining and increasing the trust of shareholders, analysts and other capital market participants is a top priority for zooplus AG and its management team. The aim of zooplus' investor relations activities is to routinely communicate important corporate information to shareholders and interested parties in a timely manner and ensure that they are kept as up to date as possible on the company's development.

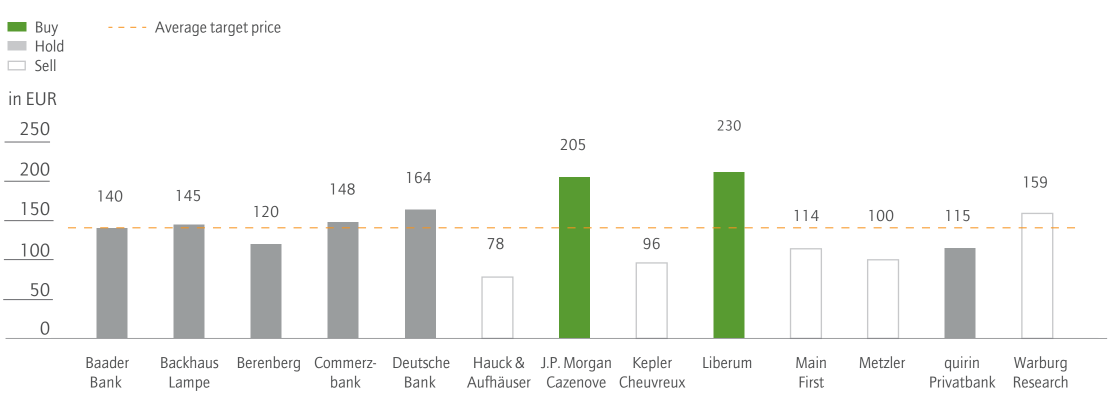
To achieve this, the investor relations department and the Management Board are available at all times for all those interested. To provide even greater access to information, the company holds conference calls and webcasts when it publishes its final quarterly results. Following these events, the public is given access to the corresponding documents on the zooplus website under the investor relations section.

In 2018, the Management Board participated in 10 investor conferences in Germany and abroad in the scope of its involvement in investor relations activities. The Management Board also held roadshows in Frankfurt, London, Paris, Zurich and New York, among other places. zooplus also hosted a Capital Markets Day in London on March 22, 2018.

The Management Board and investor relations representatives were also available to investors and analysts to answer questions and take part in one-on-one discussions. Analysts and research departments at a total of 13 banks currently provide regular coverage of zooplus AG.

Analysts

Analyst recommendations for zooplus AG as of February 28, 2019



Latest updates

Institution	Analyst	Latest update
Baader Bank	Bosse, Volker	January 24, 2019
Bankhaus Lampe	Schlienkamp, Christoph	January 18, 2019
Berenberg	Letten, James	January 25, 2019
Commerzbank	Riemann, Andreas	January 24, 2019
Deutsche Bank	Naizer, Nizla	December 3, 2018
Hauck & Aufhäuser	Salis, Christian	January 25, 2019
J.P. Morgan Cazenove	Olcese, Borja	January 24, 2019
Kepler Cheuvreux	Mauder, Nicolas	January 31, 2019
Liberum	Brown, Wayne	January 24, 2019
MainFirst	Sittig, Tobias	December 18, 2018
Metzler	Diedrich, Tom	January 28, 2019
Quirin Privatbank	Marinoni, Ralf	October 17, 2018
Warburg Research	Kleibauer, Thilo	August 22, 2018

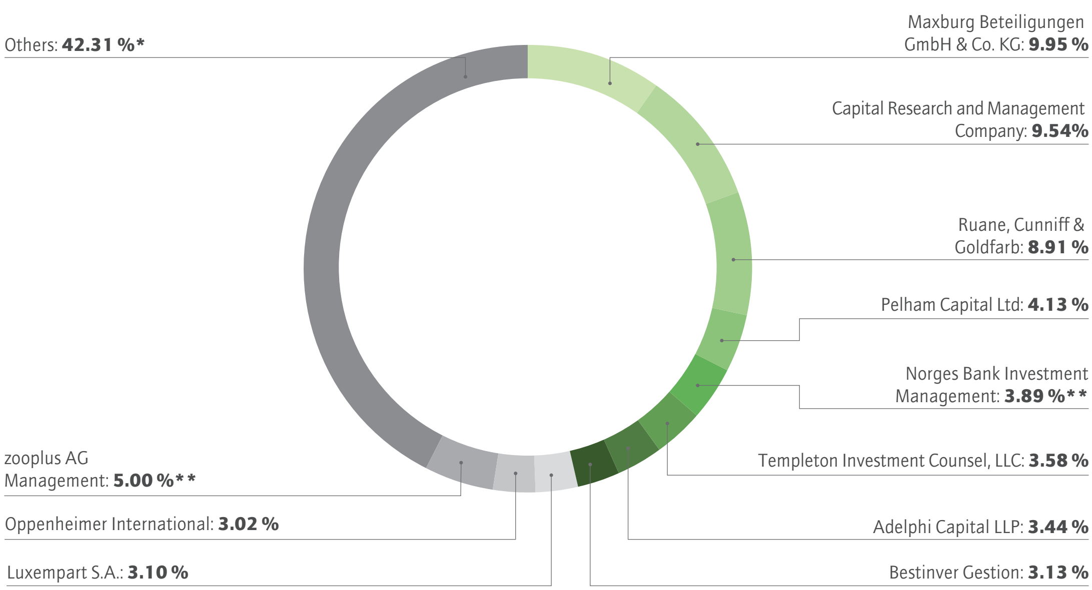
Annual General Meeting

The zooplus AG Annual General Meeting was held on June 13, 2018 in Munich and was once again widely attended with a total of 51.04% of the voting capital represented. The CEO of zooplus AG, Dr. Cornelius Patt, described the company's business performance in the 2017 financial year and outlined the prospects for the company's further development until 2020. The topics on the agenda included the following:

- The appropriation of retained profits for the 2017 financial year
- The resolution on the discharge of the Management Board for the 2017 financial year
- The resolution on the discharge of the Supervisory Board for the 2017 financial year
- The election of the auditor and group auditor for the 2018 financial year
- The resolution on the authorization to grant subscription rights to members of the Management Board of zooplus AG, members of management bodies of affiliated companies in Germany and abroad, and selected executives and employees of zooplus AG and affiliated companies in Germany and abroad (2018 Stock Option Program); and the Creation of Conditional Capital 2018/I; and the amendment of the Articles of Association
- The resolution on the cancellation of Conditional Capital 2010/I; resolution on the creation of new Conditional Capital 2018/II; the authorization of the Management Board to issue convertible bonds/bonds with warrants featuring the option to exclude subscription rights; and the amendment of the Articles of Association

All resolution proposals were approved by the Annual General Meeting with the exception of the last agenda item.

zooplus shareholders



As of February 28, 2019
Calculation of interests based on the total number of voting rights of 7,143,278
Share ownership according to published voting rights notifications

*Free float of 90.05 % according to the definition of Deutsche Börse.
**Including equity instruments.

Disclaimer: The shareholder structure depicted is based on the published notifications of voting rights and company information. zooplus AG does not assume responsibility for the accuracy, completeness or timeliness of this information.

Shareholder structure

There were some changes in the zooplus AG shareholder structure in the 2018 financial year. The company gained Oppenheimer, USA; Adelphi Capital, UK; and Templeton Investment Counsel, USA, as new investors with positions above the reporting threshold of 3%. Maxburg Beteiligungen, Germany, and Capital Research and Management Company, USA, both reduced their holdings in 2018 and fell below the reporting threshold of 10%. Pelham Capital, Bermuda, fell below the reporting threshold of 5%. The shareholdings of Deutsche Asset & Wealth Management, Germany, Foxhaven Asset Management, USA, and The Growth Fund of America, USA, fell below the 3% reporting threshold last year. The high free float of 90.05% benefits the shares by providing higher liquidity and facilitating a broader shareholder base.

2019 Financial Calendar

April 18, 2019	Preliminary sales figures for Q1 2019
May 16, 2019	Publication of the 2019 Q1 report
June 14, 2019	2019 Ordinary Annual General Meeting
July 18, 2019	Preliminary sales figures for H1 2019
August 14, 2019	Publication of the 2019 half-year report
October 17, 2019	Preliminary sales figures for Q3 2019
November 14, 2019	Publication of the 2019 nine-month report

zooplus – a sustainable growth story

Further expansion of leading market position in the online retailing of pet supplies in Europe

Sales rise 21% to EUR 1,342 m; further narrowing the gap to the European market leader for the bricks-and-mortar and online retailing market as a whole

Attractive market with further growth potential

Gross market volume in Europe of around EUR 26 bn with strong growth in the online segment; clearly differentiated offer as a specialist in this segment versus Amazon

Very loyal customer base

Nearly 7 m active customers and a currency-adjusted sales retention rate of 95%

Cost leadership

The cost leader compared to both online and bricks-and-mortar competitors; continued improvement in cost structure planned

Integrated logistics infrastructure

13 fully integrated logistics centers currently utilized for pan-European sourcing and fulfilment

Focus on growth to continue in 2019

Sales expected to rise between 14 % to 18 % with EBITDA anticipated in the range of EUR 10 to 30 m

More opportunities to expand the company's market leadership and profitability

Additional opportunities include developing the zooplus brand, social media marketing, optimum pricing, customer relationship marketing, private label expansion and the increasing use of data

Experienced management team with a clear, focused strategy

Roughly 5 % of the company's shares are held by management; stock option program offers further incentive to increase value

Combined management report

Combined management report of zooplus AG and the Group

Financial year 2018

This combined management report concerns both the zooplus Group and zooplus AG.

1. Business report

A. Business performance and economic environment

a. Group structure and business activities

i. Business divisions

zooplus AG, the parent company of the Group, was founded in Munich in 1999. The Group operates in the e-commerce segment as a web-based retailer of pet supplies to private end consumers. The zooplus Group is the distinct market leader in Europe in this segment measured in terms of sales and active customer base.

The overriding business objectives are sustained growth, the systematic penetration of existing markets, and the further expansion of the company's online market leadership in Europe.

Altogether, zooplus offers customers roughly 8,000 different food and accessory products for dogs, cats, small animals, birds, fish and horses. These products include everyday staples, such as brand name foods generally available at specialty retailers; zooplus' private labels; specialty articles, like toys, care, and hygiene products; and other accessories. The majority of sales is generated from products for dogs and cats. zooplus also offers a wide range of free content and information on its websites, including veterinary and other animal-related advice, as well as interactive features such as discussion forums and blogs.

zooplus generates its sales from products shipped out of its central fulfillment centers located in Hörselgau, Germany; Tilburg, the Netherlands; Wroclaw, Poland; Chalon-sur-Saône, France; and Antwerp, Belgium. Certain types of orders for individual markets are assumed by medium-sized and more specialized logistics centers located in Strasbourg, France; Mühldorf, Germany; Jirikov, Czechia; Boleslawiec, Poland; and Istanbul, Turkey. This ensures an increasingly denser logistics infrastructure and provides even closer proximity to customers. Operations at a new logistics facilities in Coventry, Great Britain, began in the 2018 financial year. This new, much larger and more automated location will enable us to better map the future growth in Great Britain's high-volume market while enhancing the delivery performance for our customers. New logistics capacities were also put into operation in Krosno Odrzanskie, Poland, and Cabanillas del Campo, Spain. The new location in Poland features capacity of 42,000 m² and, when operating at full capacity, represents the largest zooplus AG logistics center to date. In the medium term, zooplus is planning an output of approximately 900,000 parcels per month. This will enable zooplus to serve the German market as well as all of Eastern Europe even more efficiently and further improve its delivery performance for customers. In addition, the new location near Madrid will make it possible to provide customers in Spain with faster service and, in the long term, a more efficient mapping of logistic routes within Spain. The continuous expansion of the logistics network is the basis for zooplus' planned continued growth over the next few years.

Combined the logistic center locations ensure fast, efficient and flexible delivery, in addition to a high degree of general product availability for customers across Europe. "Final-mile" deliveries to end customers are made using national and international parcel service providers.

From a customer perspective, zooplus sets itself apart from the competition by means of its business model, which combines a broad product range, continuous product availability, attractive prices and an efficient flow of goods with simple and convenient handling.

ii. Markets

zooplus operates in 30 countries across Europe through a variety of localized and cross-national online shops. According to the German Pet Trade and Industry Association (Zentralverband Zoologischer Fachbetriebe Deutschlands e.V.), the total gross market volume of the European pet supplies segment in 2017 was estimated at roughly EUR 26 bn. According to the company's proprietary estimates, zooplus AG is the clear online market leader in terms of sales and active customer base by a wide margin across Europe. The company also believes that, in absolute terms, it is clearly the fastest growing company in its sector.

As of March 2019, zooplus operated a total of 25 localized online shops. In addition to the high-volume markets of Germany, France, United Kingdom, the Netherlands, Spain, Italy and Poland, the company also operates online shops in Belgium, Denmark, Finland, Ireland, Croatia, Austria, Romania, Slovakia, Switzerland, Slovenia, Sweden, Czechia, Hungary, Portugal, Bulgaria, Norway, Greece and Turkey. This effectively makes zooplus the sector's dominant provider in the online segment across Europe by a substantial margin compared to smaller local and national competitors.

Next to its zooplus brand, the Group operates under its bitiba brand, which is a discount concept with a limited range of products already available in 14 countries.

iii. Key influential factors

Two critical influential factors define the online retailing business for pet supplies: the evolution of the overall European pet supplies market, and the general and sector-specific development of Internet users' online purchasing behavior.

Evolution of the European pet supplies market

According to the German Pet Trade & Industry Association, the European pet supplies market currently comprises a total gross market volume of approximately EUR 26 bn. The markets of Germany, France, the United Kingdom, Spain, the Netherlands and Italy alone account for some EUR 21 bn of this total.

In all European countries, the primary sales channels for pet supplies are the bricks-and-mortar pet stores, garden centers, DIY stores, conventional supermarkets and discounters. The key difference between the individual bricks-and-mortar retail concepts for pet supplies are the product range and product positioning. While large-scale supermarkets and discounters usually limit themselves to a product range of approximately 150 to 200 smaller, typically lower-priced pet food products, larger pet store chains offer a complete product range of pet food (from entry-level to premium prices) and accessories (including toys, hygiene products, pet furniture and equipment). zooplus has defined its relevant market segment as the conventional specialty retailer segment, including the related specialty product areas of the core supermarket segment.

zooplus expects the market's overall volume to increase slightly in the years ahead.

The zooplus AG Management Board is forecasting market growth of roughly 2% to 3% in Europe in the year 2019. In Germany, around one-third of all households own one or more pets. Changes in the market are brought about by changes in the animal population, the shift in sales toward higher value products and categories within the food and accessories segments ("premiumization"), in addition to the continuing and ever-increasing "humanization" of pets.

Thanks to recurring patterns of demand, especially in the pet food segment, the pet supplies market has very low seasonality. For example, around 85% of the total demand at zooplus relates to pet food itself, which means the Group enjoys exceptionally stable medium to long-term demand.

Development of online retailing

Over the past several years, E-commerce has gained tremendous significance as an ever more important distribution channel for retailers. According to publications by the German Retail Federation (Handelsverband Deutschland), B2C e-commerce sales in Germany amounted to roughly EUR 53.4 bn in 2018 (previous year: EUR 48.7 bn), corresponding to a year-on-year increase of 10%. Further growth in European online retailing appears more than likely, particularly given the inherent advantages of online retailing compared to existing bricks-and-mortar retail concepts such as a broader product range, more convenient shopping and more attractive prices. zooplus provides customers access to its websites via desktop computers, tablets, mobile phones and the zooplus app. Logistics service providers and parcel services are also devoting considerable effort to making their services more flexible and further improving their quality of service for end customers, which also provides an added boost to the online market's growth momentum. Based on these trends, independent market observers such as Statista expect online retailing to continue to enjoy annual double-digit percentage growth rates in the years to come.

The share of products sold in the pet supply segment over the Internet is still relatively low compared to other product categories and largely driven by the sales zooplus itself generates across Europe. Based on the company's internal estimates, the Management Board believes that, until now, only around 10% of the total European pet market has migrated online.

This means zooplus, as the market leader, is in a unique position to benefit from these lasting shifts in the existing distribution and retail structures.

iv. Competitive position

Advantages over online competitors

Generally, there are lower barriers to market entry in online retail than in bricks-and-mortar retail. As a result, zooplus not only faces international (online) retailers such as Amazon in the European market but also a number of mostly regional online pet suppliers. A growing number of larger bricks-and-mortar retailers are also setting up online retail infrastructure while other local online retailers are entering new countries. These trends increase the number of retailers coming into direct competition with zooplus.

In contrast to both of these groups, zooplus has the advantage that its size and market leadership in Europe give it the structural capacity to reap crucial benefits from higher efficiency and economies of scale that are not equally available to smaller providers. This structural advantage in areas such as purchasing, private label development, logistics, technology, customer service, and marketing is the basis for zooplus' confidence in its competitive position. Other relative advantages such as brand recognition and the Group's financial strength also play a role.

At the same time, the established base of active European customers also helps provide substantial momentum for acquiring new customers through recommendations.

Advantages over bricks-and-mortar competitors

zooplus' business model is based on a lean, technologically efficient and scalable value creation chain combined with an outstanding shopping experience in terms of selection, price, convenience and especially easy home delivery.

zooplus does not operate any physical stores or outlets but instead supplies a wide range of products to customers throughout Europe from a total of now 13 fulfillment centers. At the same time, the Group's centralized organization and related efficiency advantages combined with a business that is predominantly automated enables the company to maintain a highly efficient cost structure. zooplus assumes that it is already today's cost leader in the online retailing of pet supplies.

zooplus' goal is and will continue to be to solidify and expand its lead in the online segment while strengthening its position in the overall online and bricks-and-mortar markets and profiting substantially from the continued high growth of online retailing.

v. Group structure

As of December 31, 2018, the Group's scope of consolidated companies included zooplus AG, Munich, and the following subsidiaries:

Subsidiary	Interest in share capital	Business activity
MATINA GmbH, Munich, Germany	100%	Private label business
BITIBA GmbH, Munich, Germany	100%	Secondary brand business
zooplus services Ltd., Oxford, Great Britain	100%	Service company for Great Britain
zooplus italia s.r.l., Genoa, Italy	100%	Service company for Italy
zooplus polska Sp. z o.o., Krakow, Poland	100%	Service company for Poland
zooplus services ESP S.L., Madrid, Spain	100%	Service company for Spain
zooplus france s.a.r.l., Strasbourg, France	100%	Service company for France
zooplus Nederland B.V., Tilburg, the Netherlands	100%	Service company for the Netherlands
zooplus Austria GmbH, Vienna, Austria	100%	Service company for Austria
zooplus Pet Supplies Import and Trade Ltd., Istanbul, Turkey	100%	Sales company for Turkey
Tifuve GmbH, Munich, Germany	100%	Dormant company
zooplus EE TOV, Kiev, Ukraine	100%	Dormant company
zooplus d.o.o., Zagreb, Croatia	100%	Dormant company

The consolidated financial statements have included the following entities since the beginning of the 2018 financial year:

- the wholly owned subsidiary Tifuve GmbH, Munich, Germany, with share capital of kEUR 25
- the wholly owned subsidiary zooplus EE TOV, Kiev, Ukraine, with share capital of kEUR 10
- the wholly owned subsidiary zooplus d.o.o., Zagreb, Croatia, with share capital of kEUR 3

zooplus AG was managed by the following Management Board members during the 2018 financial year and as of December 31, 2018:

- Dr. Cornelius Patt, CEO (Corporate Management, overall responsibility for Business Development & System Development, IT and Human Resources)
- Andreas Grandinger (Finance, Controlling, Legal, Investor Relations, Internal Audit and Procurement)
- Andrea Skersies (Sales & Marketing, Category Management) until November 30, 2018
- Dr. Mischa Ritter (Logistics and Supply Chain Management) since December 1, 2018
- Florian Welz (Sales & Marketing, Procurement and Category Management) since December 1, 2018

The Management Board is advised and controlled by the Supervisory Board. During the 2018 financial year and as of December 31, 2018, the Supervisory Board consisted of the following members:

- Christian Stahl (Chairman of the Supervisory Board), Partner and Managing Director of Amlon Capital LLP, London, United Kingdom
- Moritz Greve, Partner and Managing Director of Maxburg Capital Partners GmbH, Munich, Germany (Deputy Chairman of the Supervisory Board)
- Karl-Heinz Holland, freelance business consultant, Oberstenfeld, Germany
- Ulric Jerome, Director of MatchesFashion Limited (MatchesFashion.com), London, United Kingdom
- Henrik Persson, , founder and manager of Sprints Capital Management Ltd., London, United Kingdom
- Dr. Norbert Stoeck, freelance corporate consultant, Munich, Germany

The average number of employees in the 2018 financial year was 635 (excluding the Management Board; previous year: 512)

Employees are a key factor in the company's success. Regular internal training and widespread participation in external training courses have improved the employees' work quality and potential to create added value.

b. Corporate strategy – Sustainable and profitable pan-European growth

The Group aims to maintain and expand its sales-based market leadership in the European online pet supplies segment and thereby dramatically increase the company's medium and long-term earnings potential. From the company's standpoint, both the Internet and Internet retailing in Europe continue to offer excellent growth opportunities. This is the reason it is important that the Group set up the necessary structures and position itself today to generate significant medium- and long-term positive returns by virtue of its size and market leadership.

With this in mind, the following goals lie at the core of the company's activities:

- Continuing sales growth in all European markets
- Further penetrating existing regional markets
- Defending and expanding sales-based market leadership
- Expanding the customer base and securing high customer loyalty in all European markets
- Further improving the total cost ratio

The overriding priority is to continue generating high growth in order to expand our leading market position and to improve cost efficiency while maintaining sustainable operating profitability. Management sees this as the most logical strategy for the long-term appreciation of the company's value in the quarters and years to come based on the excellent growth opportunities for the Group available throughout Europe.

Targets are managed and monitored in all areas using key performance indicators that are reviewed regularly and modified over the short- to medium-term when necessary. The company places special importance on clearly communicating its goals to employees and the public.

c. Technology and development

zooplus views itself first and foremost as a technology-driven Internet retailing group. The new and ongoing development of the core processes and key components of the company's business model is usually initiated and executed internally. External partners are brought in when they can make a meaningful contribution to the company's internal expertise and implementation capacity.

In the past, proprietary systems and highly specialized software solutions in all key company areas have played a decisive role in the success of zooplus AG and the zooplus Group. zooplus believes that these systems and solutions will continue to remain a fundamental building block to reaching the company's goals. zooplus is currently investing heavily in expanding its IT software development capacity in order to emphasize the importance of the proprietary systems even more, further improve its product quality and optimize the company's internal processes and algorithms. The existing proprietary systems will be enhanced using standardized systems to meet the Group's specific requirements at all times.

B. Results of operations, net assets and financial position

The following section discusses the results of operations, net assets and financial position of the zooplus Group in accordance with IFRS. The development of the zooplus Group largely reflects that of zooplus AG. zooplus AG is discussed separately in Section 1.B.g.

a. Financial and non-financial performance indicators

i. Financial performance indicators

The yardstick for measuring the Group's growth and business success is sales. At the beginning of the 2019 financial year, the Group will change the key earnings indicator for measuring its success from earnings before taxes (EBT) to earnings before interest, taxes, depreciation and amortization (EBITDA).

The first-time application as of 2019 of the new regulations under IFRS 16 "Leases" will cause a significant change in the net assets and results of operations by taking an inventory of the existing lease contracts and, as a result, shifting some of the fixed logistics expenses to depreciation. The higher level of transparency this brings to the net assets and results of operations has now led the Group to consider EBITDA to be a more appropriate and more meaningful key earnings indicator to measure its operating success. In the future, the Group will no longer provide separate guidance for logistics, fulfilment and marketing expenses since these items are included in EBITDA. To control and monitor the earnings situation in the future, the zooplus Group will continue to focus on its analysis of the gross margin. Going forward, the Group will consider free cash flow as the appropriate indicator for monitoring its financial position.

With the first-time application of IFRS 16, the equity ratio will no longer be a suitable performance indicator as of the 2019 financial year.

ii. Non-financial performance indicators

In addition to financial performance indicators, the Group also steers its activities using non-financial performance indicators. The key non-financial performance indicator measures the company's extent of market leadership in the European online pet supplies segment based on sales.

Two other key performance indicators are the currency-adjusted sales retention rate (recurring sales in the financial year from existing and new customers in the prior year as a percentage of the previous year's sales) and the number of new customers – both of which have an influence on zooplus AG's sustained growth and stand at the center the company's corporate management.

b. 2018 Business performance

i. The economy and overall market

There is a risk that the Euro debt crisis and currency exchange risks within and outside Europe could have a considerable adverse impact on Europe's real economy. It is also not yet clear what the additional risks and consequences might be from the ongoing Brexit negotiations. In light of these and other risks to global political stability, it cannot be ruled out that negative economic developments could have an impact on zooplus AG's business in the future. It is also not yet clear how protectionist tendencies within the EU will affect international trade in goods and thereby overall economic growth and consumer purchasing power. The management believes that the development of the specific industry and online retailing environment in the respective individual markets will still have a significantly stronger influence on zooplus AG than the general economic environment described above.

ii. Previous year's 2018 guidance

At the beginning of the 2018 financial year, zooplus was guiding for year-on-year sales growth of 21% to 23% and earnings before taxes (EBT) in the range of +0.5% to – 0.5% in relation to sales.

The Management Board expected the key indicators for the results of operations, net assets and financial position to develop as follows compared to the previous year, prior to the change in accounting and valuation rules from the new IFRS regulations:

- A gross margin as a percentage of sales at the prior year's level
- Logistics and fulfillment expenses as a percentage of sales at the prior year's level
- Stable to slightly higher marketing expenses as a percentage of sales
- An equity ratio before new finance lease contracts in the range of 35% to 55%

In terms of market share, the aim was to maintain the company's market leadership in online retailing of pet supplies. The indicator of customer loyalty (sales retention rate) was expected at the prior year's level along with a moderate year-on-year rise in new customers.

iii. Actual performance in the 2018 financial year versus guidance of the previous year

Sales in the 2018 financial year increased to EUR 1,342 m, which corresponds to absolute growth of EUR 231 m and represents another above-trend increase in sales in absolute terms. The percentage increase in sales equaled 21% and was in line with our guidance for the 2018 financial year. The currency-adjusted sales retention rate as a measure of customer loyalty increased to 95% over the past financial year compared to 93% in 2017 and was thus slightly above the expectations set at the beginning of the financial year.

EBT reached a negative level of EUR – 2.3 m in the 2018 financial year, remaining within the scope of the earnings forecast of +0.5% to – 0.5% of sales.

The gross margin developed in line with the expectations announced at the beginning of the financial year and, prior to the change in the accounting and measurement rules under the new IFRS regulations, was at the level planned.

At 19.7% in financial year 2018, Logistics and fulfillment expenses as a percentage of sales were at the prior year's level (19.8%), which was within the previous year's guidance range.

Marketing expenses as a percentage of sales at 2.2% in fiscal year 2018 (previous year: 1.7%) slightly exceeded the guidance range set at the beginning of the financial year as a result of the higher investment in new customer acquisitions.

With regard to the balance sheet structure, the equity ratio as of December 31, 2018, decreased from the prior year's level of 47% to 37% due to the rise in total assets. The lower equity ratio mainly resulted from the new accounting rules and the conclusion of new finance leases. The ratio was in line with expectations.

The company maintained its market leadership, measured by sales, in the European online retail market for pet supplies and acquired a total of 2.9 m new customers during the 2018 financial year (previous year: 2.7 m), which corresponds to a moderate increase in line with the previous year's forecast.

c. Results of operations

i. Development of sales, other income and own work capitalized

zooplus was once again able to increase sales with a year-on-year rise of 20.8% from EUR 1,110.6 m in 2017 to EUR 1,341.7 m in 2018.

Sales performance was primarily driven by growth in both the number of existing customers as well as new customers accompanied by double-digit growth rates in all 30 countries. zooplus strengthened its leading market position in the European online retailing of pet supplies in terms of sales and number of customers.

While new customer business fell slightly short of expectations in the first half of the year, the zooplus Group was able to significantly increase its new customer business again at the beginning of the second half of the year, and particularly in the final quarter. In the fourth quarter of 2018, zooplus gained a total of 722 thousand new registered customers.

Sales of private label products in food and litter did particularly well, increasing by 35% over the past financial year and significantly exceeding the rise in total sales. This high-margin product segment was able to further expand its share of total food and litter sales to 14%.

Both the high loyalty of existing customers and the good quality of new customers ensured that the currency-adjusted sales retention rate was higher in 2018 (95%) than in the previous year (93%). Both trends underline and show the sustainability of our business model.

The development of sales clearly shows that zooplus, as the market leader, is profiting comparatively more from the migration of demand from the traditional bricks-and-mortar sales channels to online retailing. Based on continued double-digit growth in all regional markets, the company's strategic market position is well-established and represents a solid basis for further growth.

The first-time application of IFRS 15 led to changes in recognition and, as a result, to a sharp reduction in other operating income to a level of EUR 8.6 m in 2018, compared to a level of EUR 52.8 m in 2017. Income from marketing services in the form of marketing refunds totaled EUR 57.2 m in 2018 (2017: EUR 45.0 m) and have been offset against the cost of materials starting with the 2018 financial year. Other operating income includes other income and foreign currency gains.

zooplus is focusing more intently on expanding and improving its proprietary software platform. The increase in proprietary software development capacity and the resulting development work led to the capitalization of internally generated intangible assets and own work capitalized in the amount of EUR 2.8 m (previous year: EUR 3.5 m).

ii. Expense items

The following section provides a brief overview of the development and amounts of the key expense items. Please refer to the consolidated financial statements and the notes to the consolidated financial statements for detailed figures. All of the percentages provided in the following section are approximate figures and may be subject to slight rounding differences compared to the figures presented in the consolidated financial statements. The expense items are stated as a ratio of sales, which is the key performance indicator.

Cost of materials

The cost of materials in the 2018 financial year is not directly comparable with the prior year period due to the reclassification effects from the mandatory first-time application of IFRS 15 as of January 1, 2018. Whereas income from marketing services in the form of marketing refunds from suppliers was reported within other operating income in previous years, since January 1, 2018, this income is now directly offset against the cost of materials in the form of a reduction in the cost of materials. This results in an increase in the gross margin as of January 1, 2018, compared to the previous year, and a corresponding reduction in other operating income.

If for comparability purposes, the income from marketing services had been included in the cost of materials in the prior year period, the gross margin would have increased by 0.2% to 28.7% in 2018 compared to 28.5% in the prior year period. The increase in the gross margin resulted from a cost of materials ratio of 71.3% based on sales for the 2018 financial year and a cost of materials ratio of 71.5% adjusted for comparability purposes for 2017. The development of the stabilization of the gross margin in 2018 is the result of targeted pricing measures and improvements in supplier conditions. In addition, the disproportionate increase in private label sales and the stronger focus on high-margin sales and customers had a positive effect on the gross margin. Taking into account the competitive situation, zooplus will continue to offer its customers an optimal price-performance ratio and further expand its market-leading position in Europe.

Personnel expenses

Personnel expenses increased from EUR 39.1 m in 2017 to EUR 47.1 m in the 2018 financial year. This corresponds to a stable personnel expense ratio year-on-year of 3.5% based on sales. The stable development resulted from a continuous expansion in internal IT development capacities, added personnel in key departments as well as higher non-cash expenses in connection with the 2018 Stock Option Program.

The average number of employees in the Group during the financial year was 635 (previous year: 512, excluding the Management Board).

Depreciation and amortization

Scheduled depreciation/amortization in the 2018 financial year increased significantly year-on-year to EUR 10.1 m versus EUR 4.3 m in the 2017 reporting period. This increase is mainly attributable to depreciation from the addition and capitalization of property, plant and equipment from finance leases in Tilburg, the Netherlands and Antwerp, Belgium, as well as the contracts classified as finance leases for the new logistics warehouses in Krosno Odrzanskie, Poland, and Cabanillas del Campo, Spain, which commenced operations in the third quarter of 2018. Overall, depreciation and amortization of EUR 5.7 m was recognized in the 2018 financial year as a result of the capitalization of property, plant and equipment from finance leases, compared to EUR 2.1 m in 2017.

Other expenses

During the reporting period, other expenses increased year-on-year from EUR 279.3 m to EUR 337.9 m. Other expenses mostly consist of expenses for logistics/fulfillment, marketing and payment transactions. These expenses rose from 25.1% of Group sales in the prior year to 25.2%. Due to the first-time application of IFRS 9 in the 2018 financial year, impairment expenses on financial assets in the form of impairment losses on accounts receivable are no longer reported under other expenses but as a stand-alone item.

Logistics and fulfillment expenses

The zooplus business model provides for the warehousing, order picking and shipping of products sold to customers. Additional expenses occur from activities such as the processing of returns, storage and other logistics and distribution expenses.

Logistics and fulfillment expenses as a ratio of sales reached a level of 19.7% in 2018 compared to 19.8% in the previous year's period. Compared to the development in the first half of 2018, efficiency improvements within the entire logistics network were achieved in the second half of 2018, resulting in an improvement in logistics and fulfillment expenses relative to sales in comparison to the level achieved in the first half of 2018.

This improvement was offset by start-up costs for placing new and significantly greater logistics capacities into operation in Coventry, UK, in the second quarter, in addition to the further expansion in logistics capacities in Poland and Spain in the third quarter of 2018.

In the context of the capitalization of property, plant and equipment resulting from finance leases, expenses for logistics services in the amount of EUR 5.7 m were classified as depreciation and recorded under depreciation and amortization. In addition, a total of EUR 0.3 m was classified and reported as interest expenses in the finance result. In the 2017 comparable period, logistics expenses of EUR 2.1 m were classified as depreciation, and EUR 0.3 m were classified and reported as interest expenses.

Marketing expenses

Marketing expenses are essentially driven by the acquisition of new customers in all European markets. This is particularly the case for online marketing, where the effectiveness of individual activities is continually measured and can be adjusted regularly. This is true for the entire spectrum of search engine optimization and marketing through affiliate marketing, other online partnerships and online direct marketing. Additional minor activities are also carried out in conventional and offline-based marketing.

The increase in the share of marketing expenses as a percentage of sales from 1.7% in 2017 to 2.2% in the 2018 financial year reflects the course the company has taken to invest more in sustainably acquiring new customers and expanding its market position. The sharp increase in the number of registered new customers in the second half-year versus the first half-year validates this decision.

Despite the increase in marketing expenses, the continued very low overall marketing expense ratio, combined with a very high level of customer loyalty, is once again an indication of the strong effectiveness of the marketing approach and the very high level of customer satisfaction throughout Europe with the zooplus product range.

Both the new and existing customer businesses continued to expand with a total of 2.9 m new customers acquired in the year 2018 (previous year: 2.7 m). The currency-adjusted sales retention rate in the 2018 financial year was at a record level of 95% and was higher than in the prior year.

Payment transaction expenses

Due to the first-time application of IFRS 9 in the 2018 financial year, impairment expenses on financial assets in the form of impairment losses on accounts receivable are no longer reported under other expenses but as a stand-alone item. As a result, payment transaction expenses relative to sales declined versus the prior year. Expenses for payment transactions amounted to 0.9% of sales, which was slightly below the prior year's level. Impairment expenses on financial assets totaled 0.2% of sales.

Other miscellaneous expenses

In addition to the expenses for logistics and fulfillment, marketing, and payment transactions described above, other expenses included customer relationship service costs, office rentals, general administrative costs, technology costs and other expenses incurred as part of the ordinary operating activities. Other expenses as a percentage of sales were 2.5% compared to 2.6% in the prior year.

Interest expenses

Also in the 2018 financial year, zooplus AG had access to flexible credit lines totaling EUR 50.0 m from three independent credit institutions without being required to provide collateral. These credit lines were partially utilized in 2018. The interest incurred and the fees for the credit line availability were responsible for EUR 0.2 m in interest expenses. There were no liabilities to credit institutions at the year's end.

In addition, interest expenses in connection with finance leases amount to EUR 0.5 m.

iii. Earnings development

In the 2018 financial year, zooplus generated earnings before taxes (EBT) of EUR – 2.3 m after EUR 4.1 m in the previous year and earnings before interest, taxes, depreciation and amortization (EBITDA) of EUR 8.6 m, compared to EUR 8.8 m in the previous year. A stabilization in the gross margin after the first quarter and efficiency improvements in the logistics network led to a significant improvement in EBT in the second half of 2018. Overall, the result for 2018 was driven by targeted investments in increasing business with new customers and expanding and optimizing logistics activities.

Consolidated net profit/loss reached EUR – 2.1 m (previous year: EUR 1.9 m). At EUR – 2.5 m (previous year: EUR – 0.6 m) total comprehensive income differed from the consolidated net profit/loss due to the hedge reserve of EUR 0.3 m and currency translation differences of EUR – 0.7 m.

d. Net assets

Non-current assets as of the end of 2018 totaled EUR 70.0 m compared to EUR 28.1 m at the end of 2017. This rise is mainly the result of the capitalization of property, plant and equipment related to the finance lease in Tilburg, the Netherlands, and Antwerp, Belgium, due to the extension of both warehouse logistics contracts as well as new contracts classified as finance leases in Krosno Odrzanskie, Poland, and Cabanillas del Campo, Spain, that commenced operation in the third quarter of 2018.

The net carrying amount of all finance lease items totaled EUR 50.0 m as of December 31, 2018, compared to EUR 11.0 m as of December 31, 2017.

Within current assets, inventories rose from EUR 104.5 m at the end of 2017 to EUR 107.6 m as of December 31, 2018. It is important to note that especially when it comes to general product availability and private label and direct import products, which are subject to longer procurement cycles, the crucial drivers of sales per customer are sufficient inventory levels and, consequently, high product availability.

Accounts receivable reached a level of EUR 28.1 m at the end of 2018 (previous year: EUR 26.4 m). A total of EUR 2.3 m (previous year: EUR 2.1 m) of fully impaired accounts receivable were derecognized in the 2018 financial year.

The decline in other current assets from EUR 27.5 m at the end of 2017 to EUR 16.1 m as of December 31, 2018 is mainly the result of the reclassifications under IFRS 15, which were mandatory as of January 1, 2018. Other receivables from suppliers due to marketing refunds of EUR 19.0 m are now classified as contract assets and reported in the separate line item "contract assets".

Compared to their level of EUR 51.2 m in the prior year, cash and cash equivalents recorded an increase of EUR 8.3 m to EUR 59.5 m as of the end of the 2018 financial year. This was mainly the result of a year-on-year improvement in working capital and the accompanying increase in cash flows.

Equity as of the end of 2018 totaled EUR 111.1 m compared to EUR 111.4 m at the end of 2017. The rise in capital reserves from the allocations of the current stock option program was compensated for by the decline in the Group's net profit/loss.

The year-on-year increase in non-current and current lease liabilities as of December 31, 2018 resulted from the classification as finance leasing of property, plant and equipment related to the extension of the warehouse logistics contracts in Tilburg, the Netherlands, and Antwerp, Belgium, as well as new contracts classified as finance leases for the logistics warehouses in Krosno Odrzanskie, Poland, and Cabanillas del Campo, Spain, that commenced operation in the third quarter of 2018. In addition, there are future lease payments related to leased property at the fulfillment center in Wroclaw, Poland. The total share of current lease liabilities recognized was EUR 9.8 m.

Accounts payable rose to EUR 99.7 m as of the end of 2018 compared to EUR 78.1 m as of the end of 2017.

In accordance with the provisions of IFRS 15, applicable as of January 1, 2018, all transactions classified as other current liabilities, provisions or deferred income in the previous year have been recorded under the separate balance sheet item "contract liabilities" starting with the 2018 financial year. These are contract liabilities from advance customer payments received, customer refunds, customer loyalty programs, sales coupons, customer returns and applicable discount plans. Other current liabilities, other provisions and deferred income showed a corresponding decline as of December 31, 2018.

Other liabilities mainly consist of value-added tax liabilities.

Most of the company's liabilities are denominated in Euros. Other liabilities are denominated in other European currencies originating from VAT obligations and product purchases. Other liabilities in US dollars stem from products – mainly accessories – purchased in Asia.

In the 2018 financial year, the company used derivative financial instruments in the form of forward exchange transactions for hedging the GBP, CHF and USD. Off-balance-sheet financial instruments were not used.

All accounts payables and other liabilities were short-term in nature and due within less than one year mainly because of the type of the most important liability items (accounts payable and VAT liabilities).

Provisions concern, among others, provisions for a long-term incentive program for the Management Board. One provision in the amount of EUR 0.3 m is long-term in nature.

The Group's total assets amounted to EUR 301.8 m at the end of the reporting period compared to EUR 239.5 m as of December 31, 2017.

e. Financial position

Cash flows from operating activities totaled a positive EUR 21.7 m in 2018 compared to EUR 3.3 m in 2017. The key influential factors were first and foremost significant improvements in working capital.

The cash outflow from investing activities (EUR 7.3 m in 2018 compared to EUR 7.4 m in 2017) was impacted by investments made in operating and office equipment as well as in both hardware and software in the form of purchases and investments in internally generated intangible assets.

Cash flows from financing activities (EUR – 6.1 m in 2018 compared to EUR 0.3 m in 2017) included proceeds of EUR 0.2 m from capital increases from conditional capital. Repayments of finance lease liabilities reduced cash flow by EUR – 5.5 m.

As a retail group, zooplus experiences substantial volatility in balance sheet and cash flow items such as inventories, liabilities and VAT. This means there is considerably more fluctuation in these figures during the year than what is indicated in the earnings figures presented.

The overall changes in cash and cash equivalents during the year were primarily the result of the company's strong growth and changes in working capital.

The available liquidity based on the Group's available lines of credit significantly exceeded the level required to secure business operations at all times. In the 2018 financial year, zooplus was able to meet all of its payment commitments at all times.

As of the fourth quarter of 2017, zooplus AG has had access to flexible credit lines in the total amount of EUR 50.0 m from three independent credit institutions without the need to provide collateral. These credit lines were partially utilized to a very low extent in 2018. The related interest and charges for credit line availability amounted to EUR 0.2 m of the company's financial expenses. There were no liabilities to credit institutions at the year's end.

Covenants in the form of a minimum equity ratio of 25.0% and EBITDA at a minimum of above zero prior to changes from new accounting and measurement policies are in place for the existing credit lines in the amount of EUR 50.0 m. The covenants relate to the consolidated financial statements in accordance with IFRS. The Management Board expects to continue to meet these covenants' terms in the future.

f. Overall statement on the financial situation

With sales growth of 21% to EUR 1,342 m and higher new customer business in the second half of 2018, the Management Board reaffirms that the zooplus Group is on course and sees excellent prospects for its future long-term development, particularly in light of the record 95% currency-adjusted sales retention rate achieved in the reporting year. Also important to highlight is the stabilization in the gross margin achieved in the course of 2018. The development of earnings in the 2018 financial year is overall confirmation that zooplus' strategy of focusing on expanding its excellent market position and exploiting the market's tremendous potential is the right one. In addition, it is important to emphasize the fact that the company has been able to finance its consistently high growth entirely through its own operating cash flow.

Based on the Group's strong equity base, current liquidity situation, dynamic growth momentum and its position as European market leader in online pet supplies, it considers itself well equipped to finance the company's expected strong growth, including the associated effects on working capital, in the 2019 financial year.

g. zooplus AG

i. Corporate structure and business activities

zooplus AG, headquartered in Munich, is the parent company of the Group and, as such, responsible for the strategic management and control of the Group's subsidiaries. The development of zooplus AG, by far the largest operating group company, largely reflects the development of the Group as a whole. The Group's financial and non-financial performance indicators therefore also apply to zooplus AG. zooplus AG prepares its annual financial statements and management report in accordance with the provisions of the German Commercial Code (HGB).

ii. Results of operations

Sales and other operating income

During the past financial year, zooplus AG increased its sales by 20.7% over the prior year, from EUR 1,125 m in 2017 to EUR 1,358 m in 2018. While new customer business fell slightly short of expectations in the first half of the year, the zooplus Group was able to significantly accelerate its acquisition of new customers again at the beginning of the second half of the year, and especially in the final quarter.

Sales reflect the sale of merchandise to customers and include customary marketing refunds and sales of merchandise to subsidiaries.

Other operating income increased from EUR 30.2 m to EUR 33.8 m in the reporting period and reached a level of 2.5% of sales in 2018, compared to 2.7% of sales in the 2017 financial year. Other operating income mainly contains costs passed on to subsidiaries, currency gains and reversals of provisions.

The following section provides a brief overview of the development and amounts of the key expense items. All of the percentages provided in the following section are approximate figures and may be subject to slight rounding differences compared to the figures presented in the annual financial statements. The expense items are stated as a ratio of sales.

Cost of materials

The company's cost of materials as a percentage of sales increased only slightly compared to the previous financial year, rising 0.2 percentage points to 75.0% in 2018 compared to the previous year (74.8%). This, in turn, led to a drop in the company's gross margin from 25.2% in 2017 to 25.0% in 2018.

Personnel expenses

Personnel expenses increased from EUR 27.7 m in 2017 to EUR 32.6 m in 2018. This represents a slight year-on-year reduction in the personnel expenses ratio of 2.4% (in relation to sales) compared to 2.5% in 2017. There was an average number of employees in the reporting year of 382, excluding the Management Board (previous year: 326).

Depreciation and amortization

Expenses for scheduled depreciation and amortization in the 2018 financial year were EUR 3.2 m, which was higher than in the same period in 2017 (EUR 2.0 m). There were no impairments recognized in the 2018 financial year or in the prior year.

Other operating expenses

Other operating expenses increased from EUR 283.2 m in the prior year to EUR 342.8 m in the reporting year. Other expenses mainly consist of expenses for logistics/fulfillment, marketing and payment transactions. Their percentage share of sales reamined at the prior year's level and amounted to 25.2%.

Logistics and fulfillment expenses fell slightly to a level of 19.3% of sales, compared with 19.6% in the previous year.

In the 2018 financial year, new and significantly greater logistics capacity was put into operation in Coventry, United Kingdom in the second quarter. In the third quarter, the logistics capacity in both Poland and Spain was also increased.

The increase in marketing expenses, from 1.3% of sales in 2017 to 1.7% in 2018, reflects the Management Board's commitment to investing more funds in the sustainable acquisition of new customers and expanding market share. The number of registered new customers increased significantly in the second half of the year compared to the first half of the year and validates this approach.

The currency-adjusted sales retention rate at the Group level reached a record level of 95% in the 2018 financial year in accordance with IFRS.

Total expenses for payment transactions amounted to EUR 12.0 m compared to EUR 9.8 m in the previous year and, at 0.9% of sales, remained at the level of the prior year.

Profit/loss transfer agreements

In the 2018 financial year, income from profit/loss transfer agreements amounted to EUR 4.4 m (previous year: EUR 2.4 m) while expenses related to profit/loss transfer agreements amounted to EUR 2.3 m (previous year: EUR 1.6 m).

Interest expenses

Also in the 2018 financial year, zooplus AG had access to flexible credit lines totaling EUR 50.0 m from three independent credit institutions without being required to provide collateral. These credit lines were partially utilized in 2018. The interest incurred and the fees for the credit line availability were responsible for EUR 0.2 m in interest expenses. There were no liabilities to credit institutions at the year's end.

In the 2018 financial year, zooplus AG generated earnings after taxes of EUR – 2.7 m compared to EUR – 0.6 m in the previous year. A net loss of EUR – 3.4 m was also incurred (previous year: EUR – 0.7 m).

iii. Net assets

Non-current assets increased to EUR 12.8 m in the 2018 financial year compared to EUR 12.1 m as of December 31, 2017.

Within current assets, inventories increased from EUR 102.7 m at the end of 2017 to EUR 105.2 m. It is important to note that especially when it comes to general product availability and private label and direct import products, which are subject to longer procurement cycles, the crucial drivers of sales per customer are sufficient inventory levels and, consequently, high product availability.

Accounts receivable reached a net EUR 25.0 m at the end of 2018 (previous year: EUR 24.1 m). A total of EUR 2.0 m (previous year: EUR 2.0 m) of fully impaired accounts receivable were derecognized in the 2018 financial year.

Cash and cash equivalents increased by EUR 7.3 m compared to the previous year to EUR 51.8 m at the end of the 2018 financial year. This increase is mainly due to improvements in working capital and the accompanying increase in cash flows.

Equity totaled EUR 99.8 m at the end of 2018, compared to EUR 102.9 m at the end of 2017. The decline resulted primarily from the 2018 net loss and the resulting retained loss. Consequently, the equity ratio amounted to 43% as of December 31, 2018 (previous year: 47%).

Other provisions decreased from EUR 35.0 m in the previous year to EUR 27.7 m as of the end of the 2018 financial year. This decline is mainly due to a shift toward accounts payable. One provision of EUR 0.3 m is long-term in character.

Accounts payable amounted to EUR 68.5 m as of December 31, 2018, compared with EUR 46.1 m at the end of 2017. This increase is mainly attributable to the growth of the company and improvements in payment terms with suppliers and service providers.

The company's liabilities are primarily denominated in Euros. A portion of liabilities are also denominated in other European currencies and the US dollar. Liabilities in other European currencies originate from value-added tax liabilities and product purchases. US dollar liabilities stem from the sourcing of products, including accessories, from Asia.

In the 2018 financial year, the company used derivative financial instruments in the form of forward exchange transactions to hedge the GBP, PLN and USD. Off-balance-sheet financial instruments were not used.

Other liabilities in the reporting period increased from EUR 15.5 m at the end of 2017 to EUR 18.3 m as of December 31, 2018 and mainly relate to value-added tax liabilities.

All of the liabilities had maturities of less than one year.

The company's total assets amounted to EUR 233.1 m at the end of the reporting period compared to EUR 217.7 m as of December 31, 2017.

iv. Financial position

Cash flows from operating activities totaled EUR 9.5 m in 2018, compared to EUR – 3.3 m in 2017. The key driver of this development was the improvement in working capital achieved in the 2018 financial year.

The cash outflow from investing activities (EUR 3.8 m in 2018 compared to EUR 4.2 m in 2017) was affected by investments in hardware, software and operating and office equipment. No investments were made in subsidiaries in the 2018 financial year.

Cash flows from financing activities (EUR 1.6 m in 2018 compared to EUR 4.2 m in 2017) mainly include funds from the repayment of loans from subsidiaries.

Also in the 2018 financial year, zooplus AG had access to flexible credit lines totaling EUR 50.0 m from three independent credit institutions without being required to provide collateral. These credit lines were partially utilized in 2018. There were no liabilities to credit institutions at the year's end.

Covenants in the form of a minimum equity ratio of 25.0% and EBITDA at a minimum of above zero prior to changes from new accounting and measurement policies are in place for the existing credit lines in the amount of EUR 50.0 m. The Management Board expects to continue to meet these covenants' terms in the future.

v. Report on risks and opportunities of zooplus AG

The significant opportunities and risks for zooplus AG, as the parent company and the only major operating company in the zooplus Group, reflect the opportunities and risks of the Group described on pages 75 to 81 of the Report on risks and opportunities. zooplus AG is integrated into the group-wide risk management system. The description of the internal control system required by Section 289 ff HGB is also provided on pages 81 and 82.

vi. Outlook of zooplus AG

The expectations described in Section 3A in the report on the outlook for the zooplus Group also apply to the development of zooplus AG as the parent company of the Group.

2. Subsequent events

After the end of the 2018 financial year, there were no events of particular importance that impact the results of operations, financial position or net assets.

3. Report on outlook, risks and opportunities

A. Outlook

Based on the latest forecasts, the underlying economic conditions in 2019 could deteriorate. It also remains to be seen what impact Brexit uncertainties and its aftermath will have on the EU member states and companies operating across Europe. Furthermore, it is not yet possible to foresee the effect protectionist tendencies within the EU will have on international trade and therefore on overall economic growth and consumer buying power.

Irrespective of these factors, the company anticipates that the Internet will continue to grow in its importance as a sales channel (e-commerce) in the years ahead and develop at a faster rate than the market overall. zooplus, as the leader in the European online market for pet supplies, will benefit substantially from these trends. The expectation for our pet supply segment is for slightly higher sales overall in 2019.

In the 2019 financial year, we will continue to focus on the company's growth and long-term value appreciation. To do this, we will concentrate on generating sustainable and profitable growth in the long term and are therefore investing specifically in our product range, logistics and IT. All of this is in an effort to expand our position as the European market leader in the online retailing of pet supplies.

Overall, the Group expects to achieve the following financial targets in the 2019 financial year:

- Year-over-year sales growth of 14% to 18%
- EBITDA in the range of EUR 10 m to EUR 30 m

zooplus expects the following to occur in terms of the year-on-year development of the key factors influencing the results of operations, net assets and financial position:

- a gross margin based on sales in the 2019 financial year at the prior year's level
- 2019 growth to be financed entirely through free cash flow (positive free cash flow)
- another year in which the Group reasserts its leading market position based on sales in the online retailing of pet supplies
- a stable year-on-year currency-adjusted sales retention rate
- a moderate year-on-year increase in the number of new customers

Growth will continue to be the priority in 2019. Our focus will be on building future sustainable and profitable growth.

B. Risk report

a. Risk management system

In accordance with Section 91 (2) AktG, the Management Board of zooplus AG has set up a risk management system as a central component of zooplus' corporate management that is intended to ensure the principles of good corporate governance and the compliance with legal provisions. The risk management system and internal controls enable zooplus to identify, analyze and assess risks in all segments and areas of the Group and take appropriate countermeasures. The system aims to identify potential events that could jeopardize the Group's existence. It is also designed to ensure that the Group's financial, operating and strategic goals can be attained as planned. To achieve this, the zooplus AG Management Board issued a risk management guideline that governs how to deal with risk within the zooplus Group. The guideline specifies the responsibilities for carrying out the tasks in risk management and outlines the reporting structures. The guideline is subject to periodic reviews and adjustments when necessary.

The risk management system of the zooplus Group differentiates between risk officers and risk managers. Risk officers are usually the responsible departmental heads who prepare periodic risk notifications. Risk managers direct the risk management process and are responsible for providing monthly risk reports to the Management Board and Supervisory Board.

The risk manager and respective risk officer jointly identify risks and record these in a risk catalog specifying the respective subject of the risk. Periodic reporting criteria are defined for every risk. When these criteria are met, the respective risk officer must submit a risk notification; otherwise, a negative notification is made. Ad-hoc reporting criteria that trigger a direct risk notification to the Management Board are also defined. The risk notifications contain the monetary effects and probability of occurrence so that the risks can be assessed as to whether they could pose a threat to the Group. The result of the monetary effects and probability of occurrence derives the estimated risk. The risk assessments correspond to the guidance period of one year.

The following factors should be taken into account in determining the probability of occurrence:

Description	Stated probability
Risk does not exist	Negative notification
Risk exists, occurrence improbable	2%
Risk exists, occurrence possible	20%
Risk exists, occurrence probable	40%
Risk exists, occurrence expected	75%
Risk exists, occurrence is almost certain	90%

The risk management system classifies risks in the following categories according to their potential damage:

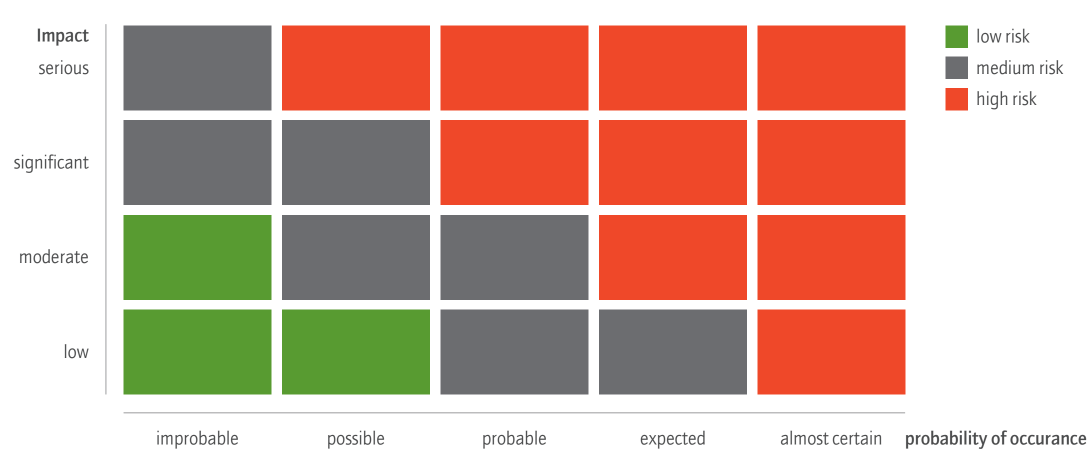
Low: No tangible effect on the net profit/loss for the period and/or the company's value.

Moderate: A negative effect on the net profit/loss for the period and/or the company's value.

Significant: A significant effect and/or risk that leads to a significant impact on the net profit/loss for the period and/or on the company's value.

Serious: A risk that could jeopardize the company's existence.

The combination of monetary effects and probability of occurrence results in the following matrix. The allocation to low, medium and high risk categories represents the impact on the financial position and results of operations.



Subsequent risk control and monitoring are based on these findings. Risk control and monitoring include all risk reduction measures that either result in a reduction in their probability of occurrence or reduce their impact to an acceptable level. Optimal risk management is managing risk in a manner that facilitates a rise in the company's value.

A regular internal audit ensures that the risk management system continually evolves and that it can be adjusted for possible changes at all times. There were no material changes made to the risk management system compared to the prior year.

b. Risks

i. Strategic risk (market risk)

The success of zooplus depends essentially on the continued acceptance of the Internet as a channel for purchasing pet supplies:

Should the growth of online retailing slow down, or should there be a drop in online retailing overall, this would have a direct impact on the zooplus business model. However, from the current perspective – which is also illustrated by the current growth rates – all indicators suggest that the acceptance of the Internet as a sales channel will continue to increase. This risk, therefore, is classified as low.

Average order sizes and the sales retention rate could be subject to negative changes in more difficult economic periods:

During a recession, existing and new customer purchasing behavior could change to the company's detriment. If customers stop buying non-food products not seen as a necessity, or if they switch to lower-priced alternative products or alternative suppliers, this could have an overall negative impact on zooplus. However, the fact that zooplus has been able to maintain its sales retention rate from year to year, acquire a significant number of customers in all of the key European markets, and offer customers superior value for money compared to its competitors gives a strong indication that the business model will continue to be successful, even in economically challenging times. This risk is classified as low.

New or existing competitors could establish a successful online presence and negatively affect zooplus' market opportunities:

zooplus is the unmistakable market leader in Germany and Europe. If competition were to significantly intensify and be accompanied by a general fall in prices, this would have a significantly negative impact on zooplus' sales and operating margin. zooplus would need to invest considerably more in customer acquisition and grant significantly higher discounts to existing and new customers. From today's perspective, the company expects the level of competition to remain high, as existing online retailers are becoming more aggressive and large bricks-and-mortar providers further expand their online shops and sell their products over the Internet. The largest share of the sales growth of bricks-and-mortar competitors in the online sector is expected to reflect an increased migration from their existing bricks-and-mortar business to online sales. Nevertheless, the e-commerce segment will continue to grow and expand significantly amid an overall growing market, which means this development would represent only a limited risk. The risk assessed from more intense competition amounts to a mid-single-digit million Euro figure and is classified as medium.

ii. Operating risk

Unforeseen events could endanger the stability of key business systems in the areas of IT, logistics, and procurement:

The company's operations are heavily reliant on the uninterrupted availability of all of its technical systems. Should these systems be jeopardized, for example, by force majeure or other system defects, this would have a substantially negative overall impact on zooplus. This risk also includes the risk of the manipulation of software applications, cyber attacks, data loss and data manipulation. zooplus has taken appropriate measures to avoid these risks to the greatest extent possible. Given the stability of the business systems in the past, zooplus believes that this risk should be manageable. The growth-related risks amount to a high single-digit million Euro figure and are classified as medium.

Long-term agreements for the fulfillment centers have been concluded with several contract partners. The structure of the international logistics and distribution networks in the shipments area allow the company to quickly substitute service providers if necessary. In procurement, the risk of being dependent on any one supplier is mitigated through diversification and sufficient control instruments. zooplus usually relies on dependable partners with a solid reputation, which in turn should lead to a substantial reduction in risk. The matter of short-term price increases is countered by one-year contracts. zooplus' high purchase volumes as a result of its excellent market position translate into favorable purchasing prices. The assessed risk of dependency on suppliers and service providers amounts to a low single-digit million Euro amount and is classified as low (previous year: medium). The reason is the further increase in zooplus' market share and the establishment of redundant structures throughout the entire logistics network.

The loss of key employees could jeopardize the company's long-term success:

To lead its employees and departments, zooplus relies on a number of important key employees who are difficult to replace. If these employees were to leave the company, this could have a negative impact – at least temporarily – on the company's success. This risk is classified as low.

Forecasting demand incorrectly could result in overstocking along the supply chain and in the logistics system:

Material planning errors can generally result in overstocking the warehouses. Should it be difficult or impossible to sell this merchandise, this could result in potential damage. Through the use of suitable control instruments, the product's low seasonality and the relatively strong visibility regarding customers' buying behavior, the Group believes that these risks can be controlled. This is coupled with the fact that the average shelf-life of a typical zooplus food product is around one to two years, which would also make the accelerated destocking of slow-moving products significantly easier. This risk is classified as low.

The UK's exit from the European Union could have an impact on the company's sales in Great Britain:

The upcoming withdrawal of the United Kingdom from the European Union (Brexit) and the concrete economic negotiations between the two parties can not yet be fully assessed conclusively. zooplus is currently profiting a great deal from Europe's single market and the supply of its goods without customs restrictions to customers in the countries of the European Union. Should Great Britain no longer be part of the European single market, this would have an impact on the delivery of customer orders to Great Britain. zooplus began operating a larger and more automated fulfillment center in Great Britain in the 2018 financial year, through which a majority of customer orders is directly delivered nationally. The risk for zooplus AG in relation to Brexit is that the prices of goods sourced directly in Great Britain will increase. In addition, some of the goods will still need to be sourced from the EU in order to fulfill all customer orders. In this relation there is also the risk of additional expenses from import duties for the import of these goods into Great Britain. Furthermore, because some of the potential consequences of Brexit are not yet clear, including a potential lack of the availability of goods, delivery bottlenecks and delays in delivery, etc., this could lead to customer complaints and, in turn, a decline in sales in Great Britain. Although the Group has already taken appropriate measures to avoid these risks to the highest extent possible, it still classifies the individual risks associated with Brexit as "possible" to "probable", and assesses this risk at a low single-digit million amount.

iii. Financial risk

The main financial instruments used by the Group consist of credit lines, accounts receivable, forward exchange transactions, cash and cash equivalents and short-term deposits. The main purpose of these financial instruments is to consistently cover financing needs and ensure financial flexibility. The Group is using derivative financial instruments to hedge foreign currency risks.

a) Currency risk
The Group operates internationally and is, consequently, subject to currency risk based on changes in the exchange rates of various foreign currencies – primarily the US dollar, British pound, Swiss franc, Norwegian krone and all other foreign currencies in the European Union. Currency risk arises from expected future transactions, recognized assets and liabilities. As a result, the management has introduced a guideline defining how currency risk should be managed effectively in relation to the functional currency. The Group hedges foreign currency risk from expected future transactions, recognized assets and liabilities through forward exchange transactions entered into by the Group's finance department. The Group is increasingly trying to limit this currency risk by purchasing products locally in foreign currency regions. Exchange rate risk occurs when future business activities or recognized assets or liabilities are recorded in a different currency than the Group's functional currency. The Group's risk management policy provides for hedging of between 0% and 70% of the transactions expected (consisting mainly of export sales and inventory purchases). As of the December 31, 2018 reporting date, forward exchange transactions were entered into solely for the CHF to hedge sales in Swiss francs. The expected transactions that will be settled using hedging instruments correspond to the hedge accounting criteria of a "highly probable" forecast transaction. The assessed risk for all foreign currency transactions amounts to a mid-single-digit million Euro figure and is classified as medium.

b) Credit risk
Credit risk is defined as the risk that a business partner will not be able to fulfill an obligation with respect to a financial instrument, contract or supplier relationship, which would then lead to a financial loss for the Group. The extent of the zooplus Group's credit risk is equal to the total of accounts receivable, other receivables and other current assets. There are no credit concentration risks. Credit limits are set for all customers based on internal risk classification characteristics. Outstanding customer receivables are monitored regularly. Lump-sum valuation allowances are recognized based on past experience to reduce credit risk. In addition, after the collection procedure has been completed the underlying receivables are sold. Receivables are impaired when it is impossible to collect on the debt, the customer has filed personal insolvency or as a result of the statute of limitations. In the past, total receivables defaults were around 0.2% of overall sales. From today's perspective, the company does not anticipate any deterioration in credit risk based on the company's strict credit assessment system and the growing share of business with existing customers.

Receivables from suppliers in the form of refunds for marketing and volume-based discounts can be offset against existing invoices for merchandise.

For the Group's other financial assets such as cash and cash equivalents, the maximum credit risk corresponds to the carrying amount of these assets if the counterparty defaults.

The Group classifies its credit risk as low.

c) Liquidity risk
Although zooplus is not currently subject to any borrowing restrictions, it could become restricted as a result of another banking and/or financial crises. However, from today's perspective, zooplus does not expect this to be the case in the short- or medium-term. zooplus currently has access to credit lines of EUR 50 m at three reputable credit institutions. As of the December 31, 2018 reporting date, the Group has not utilized any of these credit lines and, therefore, classifies this risk as low.

d) Interest rate risk

The Group uses overdrafts and current money-market loans with variable interest rates for financing. The credit lines are linked to the EURIBOR and are currently in the lower single-digit percentage range in terms of the overall level including the indexation premium. A general increase in interest rates – also in inter-bank rates– could lead to a significant rise in financing costs. The central finance department constantly monitors current interest rates to reduce the company's interest rate risk. The Group does not currently use hedging instruments against interest rate risk because the impact is considered negligible. The risk is estimated as low.

C. Opportunity report

i. Opportunity management

Through opportunity management, zooplus strives to identify and assess potential future success in advance so that it can take the right action and make use of this potential. Identifying and making use of opportunities is an ongoing task to ensure the Group's long-term success.

ii. Market opportunities

zooplus' dominant position in the online retailing of pet supplies in all key European markets has given the company a lead in terms of competition and size compared to other industry-specific online retailers. zooplus believes that the Group can expand this position and generate long-term sustainable earnings. zooplus has the opportunity to take the lead in the overall European pet supplies market in the years ahead. zooplus is also confident that its existing competitive advantage will allow it to permanently maintain its market and cost leadership (based on its own assessment) given its superior operating systems and processes. The company's existing market share, experience in penetrating new markets and steadily growing efficient infrastructure, offer it the opportunity to specifically establish barriers to growing competition. The existing infrastructure also facilitates a more rapid penetration of European markets and presents the opportunity for further growth. zooplus also believes that it can realize additional economies of scale in terms of processes and logistics.

There are also further opportunities for zooplus from the trend toward "humanizing" pets. This trend is gaining momentum from the long-discernable growth trend in single households, among others.

iii. Development of the e-commerce market

The trend toward greater e-commerce at the expense of bricks-and-mortar retailing appears to be uninterrupted. zooplus believes, as do a number of studies, that the e-commerce market will continue to see annual double-digit percentage growth. zooplus should continue to profit from this trend for many years to come and to an inordinate extent thanks to its dominant position in the European market.

iv. Employees and potential of expertise

zooplus assumes that the company's key employees are loyal to zooplus and expects that if certain key employees leave it would still be possible in the medium term to find adequate replacements. The company promotes employee loyalty by creating a positive work environment, offering opportunities for training and advanced education, and providing an incentive-based remuneration system.

The expertise of the highly qualified employees, some of who have been employed within the Group for an extended period of time, allow Group strategies to be reliably and quickly implemented, particularly when it comes to further expansion and internationalization. The company's management is also able to draw on wide-ranging, enduring and detailed industry know-how.

Overall statement on the risk and opportunity situation

In view of the opportunities presented and the Group's positive overall development, it appears that both the risks and potential dangers are limited and can be controlled. The risk management systems and processes have proven themselves. There have been no major changes to the risks and opportunities compared to the previous year, with the exception of the above-mentioned risks of a possible brexit. The Group does not see any individual risks that could pose a danger to its continued existence either at present or in the foreseeable future. The individual risks combined also do not jeopardize the Group's or the or zooplus AG's continued existence.

4. Key features of the internal control system and risk management system relating to (Group) accounting processes

The key features of zooplus' internal control and risk management systems with respect to the (Group) accounting process can be described as follows:

zooplus AG is characterized by its clear organizational, corporate, control and monitoring structures. There are forecasting, reporting, controlling and early warning systems and processes in place throughout the Group to extensively analyze and steer the earnings-relevant risk factors and risks to the company's continued existence. The functions in all areas of the (Group) accounting process (e.g., accounting, financial bookkeeping and controlling) are clearly assigned. Due to its relatively small size and complexity, zooplus AG does not have a separate internal auditing department and occasionally uses external service providers for audit purposes in addition to its own employees.

The IT systems used for accounting are protected against unauthorized access. The financial systems in place predominately employ standard (SAP) and proprietary software.

The IFRS consolidated financial statements are prepared on the basis of a uniform reporting format coordinated centrally from the Group's head office in Munich. The validation processes and additional plausibility checks performed at the Group's head office ensure the accuracy and integrity of the annual financial statements of the subsidiaries underlying the consolidated financial statements.

A sufficient internal risk management system has been implemented. The accounting data is reviewed periodically to ensure that it is accurate and complete using random spot and plausibility checks conducted through manual reviews and company software. The key accounting processes are subject to regular analytical reviews. The existing risk management system is continuously adjusted in response to current developments and subject to ongoing reviews for functionality.

The Supervisory Board deals with major accounting issues, risk management, the audit mandate and the audit's areas of focus, among others.

The internal control and risk management systems used in relation to the accounting process ensure that business events are properly accounted for and prepared and assessed correctly so that they can be included in external financial reporting.

The order process is carried out on a standardized basis using a procurement system. Payments are only executed when invoices and documents are correctly initialed and presented. Invoicing and the invoice review process are both carried out electronically with all approvals documented and archived. Payment transactions are made electronically using established control mechanisms (cross-check principle among a selected group of individuals). Wage and salary processing is outsourced to external service providers.

Quantitative stock accounting is carried out by external service providers and is monitored and checked by zooplus continually via interfaces set up automatically. In addition, zooplus is contractually granted sufficient control mechanisms.

The sales process ensures that the services provided are invoiced properly and accounted for in line with the provisions for revenue recognition by recording the products sold in the upstream shop system and by automatic transfers into accounts receivable subledger.

The clear organizational, corporate, control and monitoring structures and the fact that the accounting department has the sufficient staff and materials available, make it possible for the departments and employees involved in the (Group) accounting process to work efficiently. Clear statutory and internal requirements and guidelines ensure that the accounting process is uniform and correct. The clearly defined review procedures in departments that participate in the accounting process, as well as the review by internal controlling and early recognition of risks by risk management, should all ensure error-free (Group) accounting.

The internal control and risk management system within the zooplus Group ensures that the Group's accounting is in compliance with the legal and statutory requirements and internal guidelines. The company's uniform risk management system, which complies with the statutory requirements, is designed to recognize risks in ample time and measure and communicate them appropriately. This immediately provides the report's recipients with accurate, relevant, reliable and timely information.

From the balance sheet date to the date of the publication of the group management report, no changes have been made to the accounting-related internal control and risk management systems.

5. Remuneration report

The Supervisory Board is responsible for establishing the remuneration system and defining the individual remuneration of members of the Management Board. The Supervisory Board regularly reviews the remuneration structure for its appropriateness. The Supervisory Board's remuneration is based on a resolution passed by the Annual General Meeting.

A. Structure of the Management Board's remuneration

The remuneration of the Management Board consists of fixed annual remuneration, variable components with a multi-year incentive and fringe benefits.

a) Fixed annual remuneration

Fixed annual remuneration consists of a contractually agreed non-performance-related annual salary that is paid in twelve equal installments.

b) Variable multi-year performance-based remuneration

Variable multi-year performance-related remuneration is divided into two areas:

i) Stock option program for Management Board members

The Management Board participates in a stock option program. The exercise period for these stock options is four years. For the details and parameters of the stock option programs, see the explanatory notes under Item 16 in the notes to the consolidated financial statements.

ii) Share-based remuneration through cash compensation

There is currently a long-term incentive program in place for some members of the Management Board in the form of a share-based performance share plan to create a long-lasting performance incentive. In accordance with the terms of the plan, Management Board members were granted virtual shares of the company until the 2016 financial year that are subject to a vesting period of three years potentially leading to cash payment to the company's Management Board members at the end of the vesting period. The final payment from this program will be made in the 2020 financial year.

c) Fringe benefits

Fringe benefits include non-cash benefits from the use of company cars and payments into private retirement funds for the Management Board.

d) Employment termination benefits

Maximum severance payment

In the event a contract is terminated without good cause on the part of the company or with good cause on the part of the Management Board member, the company is not required to pay more than the value of the claims for the remaining term of the contract. The amount of the severance payment, including other compensation and resulting from stock options that vested prematurely, may not exceed the value of two years of total remuneration (severance pay limit).

In deviation to the recommendation of the German Corporate Governance Code, the calculation of the severance payment cap in the event of the premature termination of management board activity is not consistently based on the total remuneration for the past financial year or, if applicable, on the expected total compensation for the current financial year. According to the provisions of the Management Board contracts, severance payment caps are calculated based on the respective basic remuneration including the fair value of the stock options to be granted to the respective Management Board member until the date of termination.

Change of control

If there is a change of control, all stock options granted to the members of the Mangement Board until that change will become vested. Any existing cash bonus plan remains unaffected by a change of control or stepping down from the company subsequent to a change of control.

B. Level of Management Board remuneration

Remuneration of the Management Board for the 2018 financial year

In the 2018 financial year, the remuneration of the Management Board totaled kEUR 3,872 (previous year: kEUR 1,126). Of this amount, kEUR 1,206 (previous year: kEUR 1,045) was fixed annual remuneration, kEUR 2,594 (previous year: kEUR 0) was variable multi-year remuneration and kEUR 72 (previous year: kEUR 81) was attributable to other compensation.

The following remuneration was payable to the individual members of the Management Board:

2018 total remuneration and benefits kEUR	Fixed remuneration	Variable multi-year remuneration	Fringe benefits	2018 Total
Dr. Cornelius Patt	500	1,080	18	1,598
Andrea Skersies [1]	303	0	25	328
Andreas Grandinger	330	648	26	1,004
Dr. Mischa Ritter [2]	29	433	1	463
Florian Welz [3]	44	433	2	479
Total	**1,206**	**2,594**	**72**	**3,872**

[1] Pro rata until November 30, 2018
[2] Pro rata as of December 1, 2018
[3] Pro rata as of November 19, 2018

2017 total remuneration and benefits kEUR	Fixed remuneration	Variable multi-year remuneration	Fringe benefits	2017 Total
Dr. Cornelius Patt	450	0	23	473
Andrea Skersies	295	0	23	318
Andreas Grandinger	300	0	35	335
Total	**1,045**	**0**	**81**	**1,126**

Stock Option Program 2016

With the Supervisory Board's consent and based on a resolution of the Annual General Meeting on May 31, 2016, the Management Board resolved on the creation of the 2016 Stock Option Program for issuing stock options with subscription rights for shares of zooplus AG to members of the company's Management Board. Under the 2016 Stock Option Program, members of the company's Management Board can receive a total of up to 100,000 shares in the company. Each option entitles the holder to subscribe to one no-par-value bearer of zooplus AG with a notional interest in the share capital of EUR 1.00 per share. The exercise price per share corresponds to the volume-weighted, 6-month average price of the zooplus share in Xetra trading (or a comparable successor system) on the Frankfurt Stock Exchange prior to the issue date of the stock options, or at least the lowest issue price as defined under Section 9 (1) AktG. In the 2016 financial year, a total of 100,000 stock options were issued to members of the company's Management Board. The subscription price for the options issued in September 2016 amounts to EUR 124.45 per share. The earliest the options can be exercised is four years after the options have been granted. Subscription rights to stock options can only be exercised if certain performance targets have been achieved. The performance targets are based on the zooplus share's absolute price performance during the vesting period. Depending on the price performance of zooplus shares, beneficiaries may be entitled to exercise differing amounts of their allocated stock options. A third of the stock options may be exercised when the volume-weighted 6-month average price of the company's shares in Xetra trading (or a comparable successor system) on the Frankfurt Stock Exchange at the end of the vesting period is at least 20% above the exercise price (Performance Target I, in which case a third of the stock options may be exercised), at least 30% above the exercise price (Performance Target II, in which case two-thirds of the stock options can be exercised) and at least 50% above the exercise price (Performance Target III, in which case all of the stock options can be exercised).

Subscription rights may be exercised within two years, starting with the end of the vesting period. All options can only be settled in equity instruments.

The fair value of the stock options granted is determined by applying the Black & Scholes model or a Monte Carlo simulation (2016 Stock Option Program) as of the grant date and taking into account the conditions at which the stock options were granted. The anticipated maturity of stock options is based on historical data and current expectations and does not necessarily reflect the actual exercise behavior of beneficiaries. The future volatility during the stock options' expected maturity period was estimated on the basis of historical volatilities and expected future share price performance. Because the company's shares have a limited trading history, the above estimation was based on the share's volatility of the past year. Expected volatility is derived based on the assumption that past volatility can serve as an indication of future trends, whereby the actual future volatility can deviate from the assumptions made.

Under the 2016 Stock Option Program, the company granted Dr. Patt 50,000 stock options, Ms. Skersies 20,000 stock options and Mr. Grandinger 30,000 stock options with a fair value of EUR 24.85 each. The exercice price of the shares outstanding as of December 31, 2018 is EUR 124.45 per share. Personnel expenses recognized in the reporting year from the 2016 Stock Option Program amounted to kEUR 310 for Dr. Patt, kEUR 337 for Ms. Skersies and kEUR 186 for Mr. Grandinger.

Stock Option Program 2018
With the Supervisory Board's consent and based on a resolution of the Annual General Meeting on June 13, 2018, the Management Board resolved on the creation of the 2018 Stock Option Program for issuing stock options with subscription rights for shares of zooplus AG to members of the company's Management Board, members of management bodies of affiliated companies in Germany and abroad and selected executives and employees of zooplus AG and affiliated companies in Germany and abroad. Under the 2018 Stock Option Program, members of the company's Management Board can receive a total of up to 150,000 shares in the company.

Each option entitles the holder to subscribe to one no-par-value bearer of zooplus AG with a notional interest in the share capital of EUR 1.00 per share. The exercise price per share corresponds to the volume-weighted, 6-month average price of the zooplus share in Xetra trading (or a comparable successor system) on the Frankfurt Stock Exchange prior to the issue date of the stock options, or at least the lowest issue price as defined under Section 9 (1) AktG. The earliest the options can be exercised is four years after the options have been granted. Stock option can only be exercised when and to the extent that the performance targets described as follows have been achieved: Subscription rights to stock options can only be exercised if certain performance targets have been achieved. The performance targets are based on the zooplus share's absolute price performance during the vesting period. Depending on the price performance of zooplus shares, beneficiaries may be entitled to exercise differing amounts of their allocated stock options. A third of the stock options may be exercised when the volume-weighted 6-month average price of the company's shares in Xetra trading (or a comparable successor system) on the Frankfurt Stock Exchange at the end of the vesting period is at least 20% above the exercise price (Performance Target I, in which case a third of the stock options may be exercised), at least 30% above the exercise price (Performance Target II, in which case two-thirds of the stock options can be exercised) and at least 50% above the exercise price (Performance Target III, in which case all of the stock options can be exercised). Subscription rights may be exercised within two years, starting with the end of the vesting period. All options can only be settled in equity instruments. Subscription rights may be exercised within two years, starting with the end of the vesting period. All options can only be settled in equity instruments.

The conditions for issuing the 2018 stock options was that their fair value at the time of their issue would not exceed 150% of the total fair value of the stock options granted to members of the Management Board in 2016.

Under the 2018 Stock Option Program, a total of 115,000 stock options were issued to members of the company's Management Board in the 2018 financial year. In August, Dr. Patt was granted 50,000 stock options and Mr. Grandinger 30,000 stock options with a fair value of EUR 21.59 each. Furthermore, in December 2018, Dr. Ritter and Mr. Welz were each granted 17,500 stock options with a fair value of EUR 24.72. The subscription price for the options issued in August 2018 is EUR 162.32 per share and the subscription price for the options issued in December 2018 is EUR 148.83 per share. Personnel expenses recognized in the reporting year from the 2018 Stock Option Program amounted to kEUR 215 for Dr. Patt, kEUR 129 for Mr. Grandinger, kEUR 8 for Dr. Ritter and kEUR 8 for Mr. Welz.

The weighted average remaining contractual life of the remaining stock options outstanding as of December 31, 2018 for the current and former members of the Management Board is 2.86 years.

Cash-settled, share-based compensation
Management Board members were granted a long-term incentive program (cash-settled, share-based compensation) until the end of the third quarter of 2016 in the form of a stock-based performance share plan in annual tranches in order to create a lasting incentive for senior executives. Each tranche was allocated a number of virtual shares in the company based on the achievement of the EBT target. These virtual shares have a three-year vesting period after which the company's Management Board members may be eligible to receive a cash payment. The number of virtual shares corresponds to the ratio of the EBT-dependent base amount and the average initial reference price of the company's shares. The basis for calculating the EBT base amount is the EBT stated in the company's consolidated financial statements under IFRS from the prior financial year and approved by the Supervisory Board. Achieving the objectives requires the achievement of certain EBT targets set out in corporate planning. As of December 31, 2018, Dr. Patt had a total of 3,334 subscription rights under this program with a fair value of kEUR 462, Ms. Andrea Skersies had a total of 1,905 subscription rights with a fair value of kEUR 264 and Mr. Grandinger had a total of 1,587 subscription rights with a fair value of kEUR 220. Due to the decline in the share price since the beginning of the 2018 financial year, there was a reversal of provisions for share-based payments with cash settlement. The income in the form of a reversal of provisions for the share-based payments with cash settlement recognized in the reporting period was kEUR 144 for Dr. Patt, kEUR 85 for Ms. Skersies and kEUR 71 for Mr. Grandinger.

Other agreements

Ms. Andrea Skersies resigned from the zooplus AG Management Board with effect from November 30, 2018 at her own request. The underlying employment contract had stipulated a term until December 31, 2019. The Supervisory Board and Ms. Skersies mutually agreed to conclude her employment relationship with zooplus as of June 30, 2019. Ms. Skersies was released from the obligation to perform her work for the remainder of the employment relationship with continued payment as of December 1, 2018. The remuneration to be paid to Ms. Skersies until June 30, 2019 includes a pro rata amount of fixed annual remuneration as well as other compensation under the original employment contract.

Remuneration of former Management Board members

The remuneration of former members of the Management Board amounted to kEUR 208 (previous year: kEUR 0).

C. Recommendations of the German Corporate Governance Code (GCGC)

The following tables show the benefits granted to and received by each individual member of the Management Board in accordance with the recommendations of Section 4.2.5 (3) of the German Corporate Governance Code. The information on the benefits granted and benefits received is subdivided into their fixed and variable remuneration components. The fixed remuneration components include the non-performance-related fixed salaries and fringe benefits. The variable one-year compensation components include the bonus and profit-sharing payments. The variable performance-related multi-year compensation components include the multi-year components of the stock option program for the Management Board members and the share-based compensation with cash settlement.

The variable multi-year performance-based remuneration is reported as "benefits granted" at the committed amount as of the grant date. In the case of stock option programs, this corresponds to the grant date fair value. The compensation elements are supplemented by details of individually achievable minimum and maximum remuneration.

Benefits received for the reporting year include the actual fixed compensation paid in the reporting year. In the case of variable performance-related multi-year compensation components, this relates to stock option programs ending after the vesting period in the respective reporting year and resulting in the Management Board members exercising the options and receiving payment. In the case of share-based compensation with cash settlement, this relates to the tranche to be paid out in the reporting year following the end of the vesting period.

Benefits granted

Benefits granted	Dr. Cornelius Patt CEO 2018			
kEUR	2017	2018	2018 (Min.)	2018 (Max.)
Fixed remuneration	450	500	500	500
Fringe benefits	23	18	18	18
Total	**473**	**518**	**518**	**518**
One-year variable remuneration				
Multi-year variable remuneration				
Long-term incentive program		0	0	0
AOP 2018	0	1,080	0	– [1]
Total	**0**	**1,080**	**0**	**0**
Total remuneration	**473**	**1,598**	**518**	**518**

Benefits granted	Andrea Skersies Management Board member until November 30, 2018			
kEUR	2017	2018	2018 (Min.)	2018 (Max.)
Fixed remuneration	295	303	303	303
Fringe benefits	23	25	25	25
Total	**318**	**328**	**328**	**328**
One-year variable remuneration				
Multi-year variable remuneration				
Long-term incentiv program	0	0	0	0
AOP 2018	0	0	0	– [1]
Total	**0**	**0**	**0**	**0**
Total remuneration	**318**	**328**	**328**	**328**

Benefits granted kEUR	Andreas Grandinger Management Board member 2018			
	2017	2018	2018 (Min.)	2018 (Max.)
Fixed remuneration	300	330	330	330
Fringe benefits	35	26	26	26
Total	**335**	**356**	**356**	**356**
One-year variable remuneration				
Multi-year variable remuneration				
Long-term incentiv program	0	0	0	0
AOP 2018	0	648	0	–[1]
Total	**0**	**648**	**0**	**0**
Total remuneration	**335**	**1,004**	**356**	**356**

Benefits granted kEUR	Dr. Mischa Ritter Management Board member as of December 1, 2018			
	2017	2018	2018 (Min.)	2018 (Max.)
Fixed remuneration	0	29	29	29
Fringe benefits	0	1	1	1
Total	**0**	**30**	**30**	**30**
One-year variable remuneration				
Multi-year variable remuneration				
Long-term incentive program	0	0	0	0
AOP 2018	0	433	0	–[1]
Total	**0**	**433**	**0**	**0**
Total remuneration	**0**	**463**	**30**	**30**

Benefits granted kEUR	Florian Welz Management Board member as of November 19, 2018			
	2017	2018	2018 (Min.)	2018 (Max.)
Fixed remuneration	0	44	44	44
Fringe benefits	0	2	2	2
Total	**0**	**46**	**46**	**46**
One-year variable remuneration				
Multi-year variable remuneration				
Long-term incentive program	0	0	0	0
AOP 2018	0	433	0	–[1]
Total	**0**	**433**	**0**	**0**
Total remuneration	**0**	**479**	**46**	**46**

[1] A maximum amount was not agreed. However, members of the Management Board are only allowed to exercise a maximum of the number of stock options granted.

Benefits paid

	Dr. Cornelius Patt CEO	Andrea Skersies Management Board member	Andreas Grandinger Management Board member	Dr. Mischa Ritter Management Board member	Florian Welz Management Board member
Benefits paid kEUR	2018	2018	2018	2018	2018
Fixed remuneration	500	303	330	29	44
Fringe benefits	18	25	26	1	2
Total	**518**	**328**	**356**	**30**	**46**
One-year variable remuneration	0	0	0	0	0
Multi-year variable remuneration					
Long-term incentive	392	261	218	0	0
Total	**392**	**261**	**218**	**0**	**0**
Total remuneration	**910**	**589**	**574**	**30**	**46**

In the financial year 2018, the 2014 tranche of the long-term incentive programme was paid out.

	Dr. Cornelius Patt CEO	Andrea Skersies Management Board member	Andreas Grandinger Management Board member
Benefits paid kEUR	2017	2017	2017
Fixed remuneration	450	295	300
Fringe benefits	23	23	35
Total	**473**	**318**	**335**
One-year variable remuneration	35	25	33
Multi-year variable remuneration			
Long-term incentive	0	200	83
Total	**35**	**225**	**116**
Total remuneration	**508**	**543**	**451**

In the 2018 financial year, the members of the Management Board did not receive any benefits from third parties with regard to their activities on the Management Board, nor have benefits been promised to them.

Remuneration of the Supervisory Board

Supervisory Board members receive non-performance-related remuneration paid annually in the amount of kEUR 40. The chair of the Supervisory Board receives kEUR 80, and the chairs of committees receive an additional kEUR 5. In the year under review, the members of the Supervisory Board received the following compensation corresponding to their membership in committees:

	Supervisory Board	Audit Committee	Personnel Committee	Nomination Committee	Remuneration in kEUR
Christian Stahl	Chair		Chair	✓	85
Moritz Greve	Deputy Chair	✓	✓	Chair	45
Karl-Heinz Holland		✓			40
Ulric Jerome			✓		40
Henrik Persson				✓	40
Dr. Norbert Stoeck		Chair			45
Total					**295**

6. Takeover-related information and explanations pursuant to Section 315a HGB

Composition of subscribed capital
As of December 31, 2018, subscribed capital totaled EUR 7,143,278.00 and consisted of 7,143,278 no-par value ordinary bearer shares, each with a notional interest in the company's share capital of EUR 1.00. Each share grants one vote at the Annual General Meeting.

Restrictions affecting voting rights and the transfer of shares
The Management Board is not aware of any restrictions with respect to the voting rights or the transfer of shares.

Interests in the share capital exceeding 10% of the voting rights
As of December 31, 2018, no shareholder held more than 10% of the voting rights.

Shares with special rights/voting right control in the case of employee participation
There are no shares with special rights conferring powers of control. In addition, there is no employee participation in capital that prohibits employees from directly exercising their controlling rights.

Appointment or dismissal of members of the Management Board, amendments to the Articles of Association
The appointment or dismissal of Management Board members is conducted in compliance with Sections 84 and 85 of the German Stock Corporation Act (AktG). The Supervisory Board appoints Management Board members for a maximum of five years. Members may be reappointed, or their term of office extended for a maximum of five years in each case. In addition, Section 7 of the Articles of Association stipulates that the number of Management Board members is determined by the Supervisory Board and that the Management Board can consist of just one member.

Prerequisites for amending the Articles of Association are primarily governed by Sections 179 to 181 AktG. In accordance with Sections 119 (1) no. 5 and 179 (1) AktG, changes to the Articles of Association require a resolution of the Annual General Meeting. Section 179 (2) AktG requires such resolution to be passed by a majority of three-quarters of the capital represented unless the Articles of Association stipulate a different majority. Under Section 19 (2), zooplus AG's Articles of Association make use of the option provided for in Section 179 (2) AktG and specifies that, to be passed, resolutions generally require a simple majority – provided the law does not require another majority – and, if a capital majority is required, with the simple majority of the capital represented. Under Section 24 of the zooplus AG Articles of Association, the Supervisory Board is authorized to make changes to the Articles that affect only their wording.

Authorization of the Management Board to issue shares

1. Authorized capital

With the approval of the Supervisory Board, the resolution of the Annual General Meeting on June 11, 2015 authorized the Management Board to increase the company's share capital on one or several occasions until June 10, 2020 by up to a total of EUR 3,492,225.00 (in words: three million four hundred and ninety-two thousand two hundred and twenty-five Euros) by issuing new no-par value bearer shares (Authorized Capital 2015).

The capital increases can be executed against cash contribution and/or contribution in kind. Shareholders are principally entitled to subscription rights. The new shares can also be subscribed to by one or more credit institutions or similar institutions with the obligation to offer the new shares to the shareholders for subscription (indirect subscription right).

With the Supervisory Board's approval, the Management Board is also authorized once or several times to exclude shareholders' subscription rights in the following cases: (1) to the extent required to exclude fractional shares from the subscription rights of shareholders; (2) to the extent required to grant holders of option and/or conversion rights, or option and/or conversion obligations from bonds with option and/or conversion rights, or option and/or conversion obligations issued by the company or a company in which the company holds a direct or indirect majority shareholding, a subscription right or conversion option for new shares in the amount due to them after exercising option and/or conversion rights or fulfilling option and/or conversion obligations as a shareholder; (3) to the extent that the new shares are issued against contributions in kind, particularly in the form of companies, parts of companies, interests in companies or other assets; (4) to the extent that the new shares are issued against cash contributions, the issue price of the newly issued shares is not significantly below the market price of the already listed shares of the company of the same class at the time of the final determination of the issue price, and the total notional interest in share capital of the new shares to be issued under the exclusion of subscription rights does not exceed 10% of the share capital existing at the time this authorization becomes effective or at the time of exercising this authorization. The limitation takes into account the notional interest in the company's share capital attributable to shares that were issued or sold during the term of this authorization excluding shareholder subscription rights in accordance with, as defined by or in direct application of Section 186 (3) sentence 4 AktG as well as the notional interest in the share capital attributable to shares that will be issued or are to be issued to fulfill option rights and/or conversion rights, or option obligations and/or conversion obligations from bonds provided the bonds will be issued during the term of this authorization excluding shareholder subscription rights as defined by Section 186 (3) sentence 4 AktG.

The notional interest of share capital attributable to the new shares for which subscription rights will be excluded under the above items or based on other authorizations during the term of this authorization may not exceed 20% of the share capital either at the time it becomes effective or at the time that this authorization is exercised.

With the consent of the Supervisory Board, the Management Board is authorized to determine additional details regarding the capital increase and the conditions of the share issue. The Supervisory Board is authorized to make amendments to the version of the Articles of Associations corresponding to the scope of a capital increase from Authorized Capital 2015.

2. Conditional capital

a. Conditional Capital 2010/I was canceled by resolution of the Annual General Meeting on June 13, 2018.

b. According to Section 5 (5) of the Articles of Association, the company's share capital has been conditionally increased by EUR 30,400.00 through the issue of up to 30,400 no-par value bearer shares with a notional interest in share capital of EUR 1.00 per share (Conditional Capital 2012/I). Conditional Capital 2012/I serves to secure subscription rights from stock options issued by zooplus AG under the authorization of the Annual General Meeting of May 22, 2012 under Agenda Item 10 lit. a) as part of the Stock Option Program 2010/I in the period from the date of the registration of Conditional Capital 2012/I until December 31, 2013. The conditional capital increase will only be executed to the extent that stock options are issued, and the holders of these stock options exercise their subscription rights for the company's shares, and the company does not grant its own shares to fulfill the subscription rights. The issue of the shares from Conditional Capital 2012/I is to be carried out at the exercise price defined in Item (5) of the authorization resolution. The new shares will bear dividend rights from the beginning of the financial year for which no resolution of the Annual General Meeting was made on the appropriation of retained profit at the time when the subscription right is exercised.

c. According to Section 5 (4) of the Articles of Association, the company's share capital has been conditionally increased by EUR 250,000.00 by issuing up to 250,000 no-par-value bearer shares with a notional interest in share capital of EUR 1.00 per share (Conditional Capital 2016) in accordance with the authorization of the Annual General Meeting of May 31, 2016 under Agenda Item 6, letter a). Conditional Capital 2016 serves to secure subscription rights from stock options which, under the authorization of the Annual General Meeting of May 31, 2016 under Agenda Item 6, letter a) can be issued by zooplus AG under the 2016 Stock Option Program from the registration date of Conditional Capital 2016 until December 31, 2018. The conditional capital increase is only executed to the extent that stock options are issued, and the holders of these stock options exercise their subscription right to shares of the company. The shares from Conditional Capital 2016 are issued at the exercise price determined in accordance with Item (7). The new shares will participate in the profits from the beginning of the financial year for which no resolution of the Annual General Meeting has been made on the appropriation of retained profits at the time when the subscription right is exercised. The Management Board and, insofar as members of the Management Board of the Company are affected, the Supervisory Board are authorized to determine the further details of the conditional capital increase and its execution.

d. According to Section 5 (8) of the Articles of Association, the company's share capital has been conditionally increased by a further EUR 365,000.00 as of the reporting date (Conditional Capital 2018/I). Conditional Capital 2018/I currently underlies the rights to subscribe up to 365,000 no-par-value bearer shares. Conditional Capital 2018/I serves to secure subscription rights from stock options granted to members of the Management Board and company employees. The conditional capital increase will only be executed to the extent that the holders of the subscription rights issued under the 2018 stock option plan pursuant to the authorization resolution of the Annual General Meeting on June 13, 2018, exercise their subscription rights to company shares, and the company does not grant treasury shares in fulfillment of the subscription rights.

Management Board authorization to repurchase shares

a) The Annual General Meeting of June 11, 2015, authorized the Management Board, with the consent of the Supervisory Board, until June 10, 2020 to acquire the company's own shares in an amount up to 10% of the share capital existing at the time of the Annual General Meeting's resolution, subject to the condition that the shares acquired under this authorization together with other shares of the company, which the company either holds or which are to be attributable to it pursuant to Sections 71d and 71e AktG, do not total more than 10% of the company's share capital at any point in time. The purchase of shares can also be executed by controlled Group companies as defined by Section 17 AktG or by third parties acting on behalf of the company or controlled Group companies.

The authorization may be exercised for all legally permissible purposes, in particular in pursuit of one or more of the purposes named under letter b) (1) to (6). Trading in own shares is not allowed. The authorization may be exercised in whole or in part, and in the latter case also several times. Purchases may take place within the authorization period until the maximum purchase volume is achieved in partial tranches, distributed over different purchase dates.

The purchase is effected by way of the principle of equal treatment (Section 53a AktG) via the stock market or by means of a public purchase offer addressed to all shareholders.

If the shares are purchased over the stock exchange, the consideration paid by the company per no-par value share (excluding incidental costs) may not exceed the volume-weighted average price of the company's shares in Xetra trading (or a functionally comparable successor system) on the Frankfurt Stock Exchange during the last five trading days before the date of the commitment to purchase the shares by more than 5% and or be more than 5% below that price.

If the purchase is made by means of a public purchase offer addressed to all shareholders, the offered purchase price or the limits of the offered purchase price range per share (excluding incidental costs) shall not exceed the volume-weighted average price of the company's shares in Xetra trading (or a functionally comparable successor system) on the Frankfurt Stock Exchange by more than 10% or be more than 10% below that price during the last five trading days prior to the date of publication of the offer. The volume of the offer can be limited. If the total number of tendered shares is greater than this volume, the purchase may be made proportionately according to the ratio of tendered shares; in addition, there may be preferred acceptance for lower numbers of up to 100 tendered shares per shareholder and figures may be rounded according to commercial principles to avoid fractional shares. Any further rights of tender for shareholders are not permitted.

b) With the consent of the Supervisory Board, the Management Board is authorized to use the shares acquired on the basis of this authorization for all legally permissible purposes.

The authorization can be used for all legally permissible purposes, in particular to

(1) resell the shares on the stock exchange while upholding the principle of equal treatment (Section 53a AktG);

(2) offer the shares for subscription to shareholders based on an offer directed at all shareholders while upholding their subscription rights and the principle of equal treatment (Section 53a AktG);

(3) use the shares as (partial) consideration in the context of business combinations or for the purpose of purchasing companies, parts of companies, or interests in companies, including increasing existing interests in companies;

(4) sell the shares for a cash payment at a price (excluding incidental selling costs) that does not significantly fall below the market price of the company's shares at the time of sale as defined by Section 186 (3) sentence 4 AktG. The number of shares sold in this manner may not exceed 10% of the share capital, neither at the time this authorization takes effect, nor at the time of utilizing this authorization. This limit includes shares that were issued or sold as defined by or within the direct application of Section 186 (3) sentence 4 AktG during the effective period of this authorization until the time the shares were issued or sold. Also to be included are shares that were issued or are to be issued to service convertible bonds/bonds with warrants, provided these bonds were issued during the effective period of this authorization in accordance with Section 186 (3) sentence 4 AktG;

(5) redeem them without a further AGM resolution. The redemption results in a capital reduction. The Management Board may alternatively stipulate that the share capital remains unchanged subsequent to the redemption and that instead, the notional interest of the remaining shares in the share capital is increased in accordance with Section 8 (3) AktG. In this case, the Management Board is authorized to adjust the number of no-par value shares stated in the Articles of Association; or

(6) offer the shares for purchase or transfer them to company employees, employees of affiliated companies or members of senior management, and/or to use them to fulfill commitments or obligations to purchase shares of the company that were or will be granted to employees of the company, employees of affiliated companies, or members of senior management. The shares may be used, in particular, to fulfill purchase obligations or purchase rights for the company's shares that were agreed with employees or members of senior management in connection with employee participation programs. If members of the company's Management Board are beneficiaries, it is the responsibility of the Supervisory Board to select these beneficiaries and determine the amount of shares these members should be granted.

The above authorizations can be utilized for their whole amount or in several partial amounts to pursue one or several purposes. Shareholder subscription rights for company treasury shares are excluded insofar as these shares are used pursuant to the above authorizations in Items (1), (3), (4), and (6). If shares are sold as part of a sales offer pursuant to Item (2), the Management Board, with the consent of the Supervisory Board, is authorized to exclude the shareholders' subscription rights for fractional amounts.

Material agreements of the company that are subject to a change of control following a takeover bid
The company has no material agreements that are subject to a change of control following a takeover bid.

Compensation agreements of the parent company with members of the Management Board or employees in the event of a takeover bid
In the case of a change in control, all stock options granted to members of the Management Board as of the time of the change in control will be vested.

A change of control within this meaning occurs if either (i) a shareholder has acquired control pursuant to Section 29 of the German Securities Acquisition and Takeover Act (WpÜG) by holding at least 30% of the voting rights in the company or (ii) a corporate agreement has been concluded with the company as a controlled company pursuant to Section 291 AktG (iii) the company has merged with another legal entity pursuant to Section 2 of the German Transformation Act (UmwG).

7. Statement on corporate governance pursuant to Sections 289f and 315d HGB

The statement on corporate governance pursuant to Sections 289f and 315d HGB can be found on the company's website http://investors.zooplus.com/en/home.html under corporate governance in the investor relations section.

8. The non-financial declaration in accordance with Sections 315b, 315c in conjunction with 289b to 289e HGB can be found at http://investors.zooplus.com/downloads/e_zooplus_GB2018_190320.pdf

9. General statement

The European online pet supplies market will continue to enjoy sustained growth and become an even more attractive market. zooplus is in an excellent position to reap significant gains from these developments. Based on these trends, the Management Board expects further growth for the Group in 2019.

The Management Board

Dr. Cornelius Patt	Andreas Grandinger	Dr. Mischa Ritter	Florian Welz

Munich, March 14, 2019

Consolidated financial statements

Consolidated balance sheet as of December 31, 2018 according to IFRS

Assets

in EUR		Note no.	12/31/2018	12/31/2017
A.	NON-CURRENT ASSETS			
I.	Property, plant and equipment	5	55,890,965.98	14,953,996.71
II.	Intangible assets	6	14,156,165.66	13,068,635.16
III.	Other financial assets	7	0.00	37,708.71
	Non-current assets, total		**70,047,131.64**	**28,060,340.58**
B.	CURRENT ASSETS			
I.	Inventories	9	107,559,691.30	104,542,066.62
II.	Advance payments	10	448,104.13	628,240.48
III.	Accounts receivable	11	28,144,164.99	26,387,959.32
IV.	Other current assets	12	16,144,387.00	27,474,816.50
V.	Contract assets	21	19,013,101.65	n/a
VI.	Tax receivables	8	885,554.04	1,169,804.50
VII.	Cash and cash equivalents	14	59,521,301.59	51,191,242.91
	Current assets, total		**231,716,304.70**	**211,394,130.33**
			301,763,436.34	**239,454,470.91**

Equity and liabilities

in EUR		Note no.	12/31/2018	12/31/2017
A.	EQUITY			
I.	Subscribed capital	15	7,143,278.00	7,137,578.00
II.	Capital reserves	15, 16	100,794,343.16	98,831,984.63
III.	Other reserves	15, 13	– 1,765,361.28	– 1,379,456.36
IV.	Profit/loss for the period and profit carried forward	15	4,911,555.33	6,789,493.63
	Equity, total		**111,083,815.21**	**111,379,599.90**
B.	NON-CURRENT LIABILITIES			
I.	Provisions	16, 20	320,792.97	1,190,060.16
II.	Deferred tax liabilities	8	821,754.13	1,010,240.95
III.	Finance lease liabilities	28	40,255,160.14	8,869,681.49
	Non-current liabilities, total		**41,397,707.24**	**11,069,982.60**
C.	CURRENT LIABILITIES			
I.	Accounts payable	17	99,734,714.98	78,132,936.61
II.	Derivative financial instruments	13	52,243.23	509,085.60
III.	Other current liabilities	19	19,928,246.07	24,564,100.54
IV.	Contract liabilities	21	17,119,343.03	n/a
V.	Tax liabilities	8	122,733.18	1,344,271.91
VI.	Finance lease liabilities	28	9,757,572.14	2,078,750.41
VII.	Provisions	20	2,567,061.26	7,447,738.92
VIII.	Deferred income	21	0.00	2,928,004.42
	Current liabilities, total		**149,281,913.89**	**117,004,888.41**
			301,763,436.34	**239,454,470.91**

Consolidated statement of comprehensive income as of December 31, 2018 according to IFRS

in EUR	Note no.	2018	2017
Sales	21	1,341,701,106.40	1,110,632,561.02
Other income	22	8,560,949.98	52,757,525.11
Own work capitalized	23	2,800,632.00	3,468,915.18
Cost of materials		– 956,772,788.98	– 839,629,129.66
Personnel expenses	24	– 47,079,267.43	– 39,136,528.32
of which cash		(– 45,355,837.90)	(– 37,890,957.15)
of which stock-based and non-cash	16	(– 1,723,429.53)	(– 1.245,571.17)
Depreciation and amortization	5, 6	– 10,079,830.99	– 4,321,913.92
Impairment expenses on financial assets	25	– 2,746,211.37	n / a
Other expenses	25	– 337,895,952.30	– 279,323,170.85
of which logistics / fulfillment expenses		(– 263,752,148.70)	(– 219,942,730.59)
of which marketing expenses		(– 29,100,204.92)	(– 19,267,185.68)
of which payment transaction expenses		(– 11,418,925.78)	(– 11,335,774.29)
of which other expenses		(– 33,624,672.90)	(– 28,777,480.29)
Earnings before interest and taxes		**– 1,511,362.69**	**4,448,258.56**
Financial income	26	440.88	20,903.53
Financial expenses	26, 28	– 770,879.24	– 417,577.52
Earnings before taxes		**– 2,281,801.04**	**4,051,584.56**
Taxes on income	8	177,210.36	– 2,113,270.76
Consolidated net loss (profit)		**– 2,104,590.68**	**1,938,313.80**
Other gains and losses (after taxes)			
Differences from currency translation	15	– 692,103.52	– 539,923.10
Hedge reserve	15, 13	306,198.60	– 1,986,694.32
Items subsequently reclassified to profit or loss		**– 385,904.92**	**– 2,526,617.42**
Total comprehensive income		**– 2,490,495.60**	**– 588,303.62**
Earnings per share			
Basic	27	– 0.29	0.27
Diluted	27	– 0.29	0.27

Consolidated statement of cash flows from January 1 to December 31, 2018 according to IFRS

in EUR	Note no.	2018	2017
Cash flows from operating activities			
Earnings before taxes		– 2,281,801.04	4,051,584.56
Adjustments for:			
Depreciation and amortization	5, 6	10,079,830.99	4,321,913.92
Non-cash personnel expenses	16	1,723,429.53	1,245,571.17
Other non-cash business transactions	6	– 588,072.85	– 539,923.10
Interest and similar expenses	26	770,879.24	417,577.52
Interest and similar income	26	– 440.88	– 20,903.53
Changes in:			
Inventories	9	– 3,017,624.68	– 25,760,978.12
Advance payments	10	180,136.35	994,017.30
Accounts receivable	11	– 1,756,205.67	– 7,210,228.38
Other current assets	12	11,330,429.50	– 1,832,243.32
Contract assets	21	– 19,013,101.65	n/a
Accounts payable	17	21,530,512.04	29,649,644.02
Other liabilities	19	– 4,635,854.47	3,198,161.97
Contract liabilities	21	17,119,343.03	n/a
Current provisions	16, 20	– 4,880,677.66	– 603,365.20
Non-current provisions	20	– 869,267.19	– 313,489.55
Deferred income	21	– 2,928,004.42	502,856.10
Income taxes paid		– 1,099,127.94	– 4,824,194.19
Interest received	26	440.88	20,903.53
Cash flows from operating activities		**21,664,823.11**	**3,296,904.71**
Cash flows from investing activities			
Payments for property, plant and equipment/intangible assets	5, 6	– 7,330,312.47	– 7,438,411.59
Cash flows from investing activities		**– 7,330,312.47**	**– 7,438,411.59**
Cash flows from financing activities			
Proceeds from capital increase	15	244,629.00	2,852,145.00
Payments for the redemption of finance lease liabilities	28	– 5,524,371.74	– 2,151,426.25
Interest paid	26	– 770,879.24	– 417,577.52
Cash flows from financing activities		**– 6,050,621.98**	**283,141.23**

(Continued on next page))

in EUR	Note no.	2018	2017
Currency effects on cash and cash equivalents		8,461.31	125,947.20
Change in cash and cash equivalents due to changes in the scope of consolidation		37,708.71	0.00
Net change of cash and cash equivalents		**8,330,058.68**	**– 3,732,418.46**
Cash and cash equivalents at the beginning of the period	14	51,191,242.91	54,923,661.37
Cash and cash equivalents at the end of the period	14	59,521,301.59	51,191,242.91
Composition of cash and cash equivalents at the end of the period			
Cash on hand, bank deposits		59,521,301.59	51,191,242.91
		59,521,301.59	**51,191,242.91**

Consolidated statement of changes in equity as of December 31, 2018 according to IFRS

in EUR	Subscribed capital	Capital reserves	Other reserves	Net profit / loss for the period and profit/loss carried forward	Total
As of January 1, 2018	**7,137,578.00**	**98,831,984.63**	**– 1,379,456.36**	**6,789,493.63**	**111,379,599.90**
IFRS 9 adjustment	0.00	0.00	0.00	226,652.38	226,652.38
As of January 1, 2018 (adjusted)	7,137,578.00	98,831,984.63	– 1,379,456.36	7,016,146.01	111,606,252.28
Increase from stock options	5,700.00	1,962,358.53	0.00	0.00	1,968,058.53
Currency translation differences	0.00	0.00	– 692,103.52	0.00	– 692,103.52
Net loss for 2018	0.00	0.00	0.00	– 2,104,590.68	– 2,104,590.68
Hedge reserve	0.00	0.00	306,198.60	0.00	306,198.60
As of December 31, 2018	**7,143,278.00**	**100,794,343.16**	**– 1,765,361.28**	**4,911,555.33**	**111,083,815.21**
As of January 1, 2017	**7,060,902.00**	**94,810,944.46**	**1,147,161.06**	**4,851,179.83**	**107,870,187.35**
Increase from stock options	76,676.00	4,021,040.17	0.00	0.00	4,097,716.17
Currency translation differences	0.00	0.00	– 539,923.10	0.00	– 539,923.10
Net profit for 2017	0.00	0.00	0.00	1,938,313.80	1,938,313.80
Hedge reserve	0.00	0.00	– 1,986,694.32	0.00	– 1,986,694.32
As of December 31, 2017	**7,137,578.00**	**98,831,984.63**	**– 1,379,456.36**	**6,789,493.63**	**111,379,599.90**

Notes

Notes to the consolidated financial statements

as of December 31, 2018, according to International Financial Reporting Standards (IFRS)

1. General information

zooplus AG (the "company") is a stock corporation with limited liability as defined under German law, whose shares have been publicly traded since 2008. The company's principal corporate offices are located at Sonnenstrasse 15, 80331 Munich, Germany. The company is registered in the commercial register of the District Court of Munich under HRB 125080.

zooplus AG, as the ultimate parent company, and its subsidiaries, together are referred to as "the Group," are active in the online retailing of pet supplies in Germany and other European countries. Pet supplies are generally defined as food and accessories. The company's business operations are carried out via the company's websites.

The consolidated financial statements and group management report for the financial year ending December 31, 2018, were prepared in accordance with Section 315e (1) HGB and are submitted to and published in the electronic version of the German Federal Gazette (Bundesanzeiger).

The Management Board prepared the consolidated financial statements as of March 14, 2019, submitted them to the Supervisory Board for review as well as for publication as defined under IAS 10.

2. Summary of key accounting and valuation methods

The key accounting and valuation methods applied in preparing these consolidated financial statements are described below. These methods have been consistently applied to the reporting periods presented unless stated otherwise.

2.1 Basis of preparation

zooplus AG is a parent company as defined by Section 290 HGB. Because zooplus AG has issued equity instruments on the capital market, it is required under Section 315e (1) HGB in conjunction with Article 4 of the Regulation of the European Parliament dated July 19, 2002 to prepare the company's consolidated financial statements according to the International Financial Reporting Standards (EU IFRS) as adopted by the EU. These consolidated financial statements for the 2018 financial year have been prepared in accordance with IFRS and the interpretations of the IFRS IC. By complying with these standards and interpretations, the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the zooplus Group. The consolidated financial statements are published in the German Federal Gazette (Bundesanzeiger).

The consolidated financial statements have been prepared on a historical acquisition / production cost basis, except in the case of certain financial assets and financial liabilities (including derivative instruments), which are measured at fair value through profit or loss. The consolidated financial statements have been prepared in Euro (EUR), which serves both as the functional and reporting currency. The functional currency of the subsidiaries may differ depending on the business environment. Unless otherwise indicated, all amounts are expressed in whole amounts in Euro thousands (kEUR) in accordance with commercial rounding practices. The financial year for all Group companies is the calendar year.

Balance sheet items are grouped together according to the maturity of the assets and liabilities. Assets that are to be sold, exhausted in the ordinary course of business or settled within twelve months are classified as current. Liabilities to be settled within twelve months after the balance sheet date are classified as current.

The statement of comprehensive income is prepared in accordance with the total cost method.

Preparing consolidated financial statements that are consistent with IFRS requires the use of estimates. In addition, when applying company-wide accounting and valuation methods, management is required to make judgments. The areas involving a greater margin of judgment or higher complexity, or areas where assumptions and estimates are critically important to the consolidated financial statements are disclosed in Note 4 "Significant Estimates and Accounting Judgments."

2.1.1 Amendments to the accounting and valuation methods and disclosures

The following table lists the mandatory new or revised standards and interpretations for this financial year and their impact on the Group:

Standards and interpretations:	Titel	Mandatory application	Adopted by the EU	Main effect on zooplus
IFRS 15	Clarification of IFRS 15 "Revenue from Contracts with Customers"	January 1, 2018	Yes	No effect
IFRS 15	Clarification of IFRS 15 "Revenue from Contracts with Customers"; date of first-time application	January 1, 2018	Yes	See information below the table
IFRS 9	Financial Instruments	January 1, 2018	Yes	See information below the table
IFRS 4	Amendments to IFRS 4 Insurance Contracts – Application of IFRS 9 Financial Instruments in combination with IFRS 4	January 1, 2018	Yes	No effect
IAS 40	Amendments to IAS 40 – Supplement to the Transfers of Investment Property	January 1, 2018	Yes	No effect
IFRS 2	Amendments to IFRS 2 Share-based Payment – Classification and Measurement of Share-based Payment Transactions	January 1, 2018	Yes	No effect
IFRIC 22	Foreign Currency Transactions and Advance Consideration	January 1, 2018	Yes	No effect
Diverse IFRS	Annual Improvements to IFRSs (2014 – 2016 cycle) – Amendments to IFRS 1 – First-time Adoption of IFRS and IAS 28 – Interests in Associates and Joint Ventures	January 1, 2018	Yes	No effect

Adoption of IFRS 15

IFRS 15 replaces IAS 18, which previously governed the sale of goods and rendering of services, as well as IAS 11, which governed the accounting of construction contracts. The new standard introduces a uniform, principle-based five-level model for recognizing revenue from contracts with customers. The standard also defines comprehensive disclosure requirements. zooplus will apply IFRS 15 prospectively for financial years as of January 1, 2018. The effect of the transition will be recognized starting with the 2018 financial year and in subsequent periods.

IFRS 15 requires the separate recording of contract assets and contract liabilities on the balance sheet. As of January 1, 2018, this regulation resulted in the reclassifications of receivables from marketing services and liabilities from advance payments and refunds, provisions for customer coupons and customer loyalty programs, returns as well as deferred income that were included in other balance sheet items in the financial year 2017. The following issues were identified and resulted in reclassifications and recognition and reporting changes as of January 1, 2018:

- Liabilities from advance payments received, and customer refunds of EUR 6.1 m that were previously accounted for as other current liabilities will be reclassified as contract liabilities
- Deferred income of EUR 2.9 m will be recorded separately as contract liabilities
- Provisions under the customer loyalty / loyalty rewards program of EUR 4.0 m that were previously accounted for as other provisions will be reclassified as contract liabilities
- Provisions for customer returns of EUR 0.8 m that were previously accounted for as other provisions will be reclassified as contract liabilities
- Provisions for customer coupons yet to be redeemed of EUR 0.4 m that were previously accounted for as other provisions will be reclassified as contract liabilities
- Income from marketing services in the form of marketing refunds, which were previously recognized as other income, were reclassified as cost of materials as of the 2018 financial year. Income from marketing services in the year 2018 amounted to a total of EUR 57.2 m.

The following table illustrates the reclassifications recognized for each line item. Items that were not affected by the changes have not been included. As a result, it is not possible to recalculate the specified totals and subtotals of the numbers shown.

EUR m	IAS 18 carrying amounts		IFRS 15 carrying amounts
	Dec. 31, 2017	Reclassification	Jan. 1, 2018
Assets			
Other current assets	27.5	– 14.5	13.0
Contract assets	n/a	14.5	14.5
Liabilities			
Other current liabilities	24.6	– 6.1	18.5
Contract liabilities	n/a	14.2	14.2
Current provisions	7.4	– 5.2	2.2
Deferred income	2.9	– 2.9	0.0

Adoption of IFRS 9

The final version of IFRS 9 replaces IAS 39 Financial Instruments. The standard contains regulations on the recognition and measurement of financial assets and provides for a new impairment model based on expected credit losses. Additionally, IFRS 9 contains new regulations on the application of hedge accounting. zooplus is applying these new standards for the first time with the 2018 financial year.

According to IFRS 9, financial assets are to be classified upon acquisition as "measured at fair value through profit or loss" (FVPL), "measured at fair value through other comprehensive income" or "measured at amortized cost". The classification of debt instruments depends on the underlying business model and the contractual terms of the respective instrument. Financial assets that are held to collect the contractual cash flows (business model: "Hold") and whose cash flows exclusively represent principal and interest payments on the principal amount outstanding are to be allocated to the category "at amortized cost". This applies to all of zooplus' financial assets.

Equity instruments, on the other hand, must generally be classified as "measured at fair value through profit or loss". However, when the instruments are not held for trading, there is the irrevocable option upon initial recognition to recognize fair value changes in other comprehensive income. Subsidiaries that were previously not included in the consolidated financial statements due to immateriality and recorded at cost as "financial assets available for sale" under IAS 39 have been fully consolidated as of the 2018 financial year.

With regard to the classification of financial liabilities, changes only arose for financial liabilities measured at fair value as a result of the fair value option. zooplus is not affected by this change because the fair value option has not been utilized under IAS 39 and will not be utilized under IFRS 9.

The new impairment model contained in IFRS 9 is based on the "expected loss model" rather than the previous "incurred loss model". Using the general approach (or three-stage model) for impairment, the level of impairment is derived from the development of the credit risk. Excluded from the impairment model are accounts receivable and contract assets under IFRS 15 when they do not contain a significant financing component or lease receivables for which the "simplified impairment approach" is used. Under this model, impairment is recognized in the amount of the expected losses over the remaining term, irrespective of the credit quality. Financial assets that are impaired based on the simplified approach are to be reclassified as impaired financial assets once there is an objective indication of their impairment. The application of the simplified impairment approach to accounts receivable has marginally changed the total level of impairment.

The new regulations contained in IFRS 9 for hedge accounting introduce an approach that aligns risk management more closely with accounting. The new provisions for hedge accounting have no significant impact on the Group's net assets, financial position or results of operations. The existing hedges as of January 1, 2018 were continued without any modifications.

The first-time application of IFRS 9 must be made retrospectively, whereby simplifications are allowed. Among others, zooplus utilizes the option to leave the prior year's comparable figures unadjusted. The accumulated effect of first-time application is recognized directly in equity.

The following table illustrates the reconciliation of the prior measurement categories and carrying amounts according to IAS 39 to the new measurement categories and carrying amounts according to IFRS 9 as of January 1, 2018.

kEUR	Measurement categories		Carrying amounts	
	IAS 39	IFRS 9	IAS 39	IFRS 9
Financial assets				
Accounts receivable	LaR	AC	26,388	26,615
Other financial assets	AfS	n / a [1]	38	n / a
Other current assets – of which financial instruments	LaR	AC	23,958	9,091
		n / a [2]		n / a [2]
Derivative financial instruments	n / a [3]	n / a [3]	0	0
Cash and cash equivalents	LaR	AC	51,191	51,191

LaR: Loans and Receivables
AfS: Available for Sale
AC: Amortized Cost
FLaC: Financial Liability at Cost

[1] Subsidiaries previously not included in the consolidated financial statements due to immateriality have been fully consolidated as of January 1, 2018.
[2] Contract assets under IFRS 15.
[3] Derivatives were designated as hedging instruments for hedge accounting under IAS 39 and will continue to be so under IFRS 9 and are therefore not allocated to any category.

kEUR	Measurement categories		Carrying amounts	
	IAS 39	IFRS 9	IAS 39	IFRS 9
Financial liabilities				
Accounts payable	FLaC	FlaC	78,133	78,133
Other current assets – of which financial instruments	FLaC	FlaC	6,600	518
		n / a [1]		n / a [1]
Derivative financial instruments	n / a [2]	n / a [2]	509	509

[1] Contract liabilities under IFRS 15.
[2] Derivatives were designated as hedging instruments for hedge accounting under IAS 39 and will continue to be so under IFRS 9 and are therefore not allocated to any category.

Financial assets according to the IAS 39 measurement categories are reconciled to the measurement categories of IFRS 9 as follows:

kEUR	AC (LaR 2017)	AfS at cost (nur 2017)	FVTPL	Total financial assets
Carrying amount 12 / 31 / 2017 (IAS 39)	**101,537**	**38**	**0**	**101,575**
Reclassification as contract asset under IFRS 15	**– 14,507**			**– 14,507**
Adjustment due to full consolidation		– 38		– 38
Remeasurement according to IFRS 9	227			227
Carrying amount 1 / 1 / 2018 (IFRS 9)	87,257	0	0	87,257

Impairment recognized for accounts receivable decreased by kEUR 227 as of January 1, 2018 due to the first-time application of IFRS 9. The effect was recognized in equity.

The following table illustrates the reconciliation of the previous impairment losses under IAS 39 to the new impairment losses under IFRS 9 as of January 1, 2018:

kEUR	Accounts receivable
Measurement category	
under IAS 39	LaR
under IFRS 9	AC
Impairments	
As of December 31, 2017 (IAS 39)	3,206
Remeasurement according to IFRS 9	– 227
As of January 1, 2018 (IFRS 9)	2,979

For reasons of materiality, impairment losses were not recognized for cash and cash equivalents, contract assets or financial assets contained within other current assets.

New standards and interpretations that will take effect only in later reporting periods were not applied early by zooplus AG. The following table lists published standards and interpretations applicable only to financial years commencing after January 1, 2018:

Standards and interpretations	Title	Mandatory application	Adopted by the EU	Main effect on zooplus
IFRS 9	Amendments to IFRS 9 – Prepayment Features with Negative Compensation	January 1, 2019	Yes	No effect
IFRS 16	Leases	January 1, 2019	Yes	See information below the table
IAS 19	Amendments to IAS 19 – Plan Amendment, Curtailment or Settlement	January 1, 2019	No	No effect
Diverse IFRS	Annual Improvements to IFRSs (2015 - 2017 cycle)	January 1, 2019	No	No effect
IFRIC 23	Uncertainty over Income Tax Treatments	January 1, 2019	Yes	No effect
IAS 28	Amendments to IAS 28 – Long-term Interests in Associates and Joint Ventures	January 1, 2019	No	No effect
IFRS 17	Insurance Contracts	January 1, 2021	Yes	No effect
Conceptual framework	Amendments to the IFRS Conceptual Framework - Definition of Assets and Liabilities; Measurement, Recognition, Disclosures	January 1, 2020	No	No effect
IFRS 3	Amendments to IFRS 3 – Definition of a Business	January 1, 2020	No	No effect
IAS 1 and IAS 8	Amendments to IAS 1 and IAS 8 – Definition of Materiality	January 1, 2020	No	No effect

On January 13, 2016, the IASB published IFRS 16 "Leases" for the accounting of leases. The new standard replaces IAS 17 and the related interpretations concerning lease accounting and introduces a uniform model for lease accounting. Under IFRS 16, the lessee must recognize an asset (for the right of use) and a corresponding liability for all leases. The only exceptions are short-term and low-value leases.

The Group formed a project team that reviewed all of the Group's leases last year in light of the new accounting rules for leases under IFRS 16. The standard will primarily affect the accounting for the Group's operating leases.

In the case of lease obligations, the Group expects the recognition of rights of use in an amount of roughly EUR 32 m on January 1, 2019, and the recognition of lease liabilities in an amount of roughly EUR 32 m (after adjustments for lease payments accumulated as of December 31, 2018). As of the reporting date, the Group had obligations in the amount of EUR 34 m from non-cancellable operating leases (see Note 28). Of these obligations, approximately EUR 1 m relates to short-term and/or low-value leases, which are recognized on a straight-line basis in the statement of comprehensive income.

The Group expects that IFRS 16 will result in an EBITDA effect of around EUR 20 m in 2019. The reason for this is that payments treated as operating leases were included in EBITDA until the end of 2018; however, the depreciation of the value in use and the interest on the lease liability will not be taken into account in this key figure in future. Some of the existing leases were already classified as finance leases under IAS 17 in 2018. See Notes 5 and 28. The EBITDA effect from finance leases in 2018 was around EUR 6 m.

As a result, the cash flow from operating activities will rise accordingly, while the cash flow from financing activities will decrease at the same time, as the repayments of the principal amount of the lease liabilities are classified as cash flows from financing activities. zooplus will apply the standard from the mandatory adoption date on January 1, 2019, taking into account the modified retrospective method.

From today's perspective, the application of the new and amended standards and interpretations will not have a material effect on the Group's net assets, financial position or results of operations above and beyond the aforementioned changes. The Group does not plan to apply any of the standards prematurely.

2.2 Scope of consolidation

The Group's scope of fully consolidated companies comprised zooplus AG and the following subsidiaries:

Subsidiary	Interest in share capital	Share of equity (IFRS) in kEUR	Business activity
MATINA GmbH, Munich, Germany	100%	1,294	Private label business
BITIBA GmbH, Munich, Germany	100%	209	Secondary brand business
zooplus services Ltd., Oxford, Great Britain	100%	1,401	Service company for Great Britain
zooplus italia s.r.l., Genoa, Italy	100%	291	Service company for Italy
zooplus polska sp. z.o.o., Krakow, Poland	100%	577	Service company for Poland
zooplus services ESP S.L., Madrid, Spain	100%	417	Service company for Spain
zooplus Pet Supplies Import and Trade ltd., Istanbul, Turkey	100%	2,008	Sales company for Turkey
zooplus france s.a.r.l., Strasbourg, France	100%	399	Service company for France
zooplus Nederland B.V. Tilburg, the Netherlands	100%	106	Service company for the Netherlands
zooplus Austria GmbH, Vienna, Austria	100%	104	Service company for Austria
Tifuve GmbH, Munich, Germany	100%	11	Dormant company
zooplus EE TOV, Kiev, Ukraine	100%	– 6	Dormant company
zooplus d.o.o., Zagreb, Croatia	100%	– 13	Dormant company

As of the 2018 financial year, the following companies were included for the first time in the Group's scope of consolidation:

- the wholly owned subsidiary Tifuve GmbH, Munich, Germany, founded in May 2013, with share capital of kEUR 25
- the wholly owned subsidiary zooplus EE TOV, Kiev, Ukraine, founded in the second quarter of 2011, with share capital of kEUR 10
- the wholly owned subsidiary zooplus d.o.o., Zagreb, Croatia, founded in February 2013, with share capital of kEUR 3

The subsidiaries BITIBA GmbH, Munich, and MATINA GmbH, Munich, have utilized the option to remain exempt from the obligation to prepare notes, management reports, audits and the disclosure of financial statements for the 2018 financial year under Section 264 (3) HGB.

2.3 Consolidation methods

Subsidiaries are all entities, who are controlled by the Group. The Group controls a subsidiary when it is exposed to risk through variable economic returns or has rights to these variable returns based on its involvement with the subsidiary and when the Group has the ability to exert power over a subsidiary in such a manner that it influences the subsidiary's returns. Subsidiaries are included in the consolidated financial statements (full consolidation) from the point in time control has been transferred to the Group. Subsidiaries are no longer consolidated from the point in time when this control ends. Any gains / losses from deconsolidation are recognized in the consolidated statement of comprehensive income.

No subsidiaries were purchased or sold in the 2018 financial year.

Group-internal transactions, balances and unrealized gains and losses from transactions between Group companies are eliminated. The accounting and valuation methods of subsidiaries were changed when necessary to ensure uniform accounting practices throughout the Group.

2.4 Segment reporting

An operating segment under IFRS 8 is defined as a component of an entity that engages in business activities from which it can earn income and incur expenses, whose operating results are reviewed regularly by the company's chief operating decision-maker (the Management Board) to make decisions concerning the resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

The zooplus Group's business activities comprise the sales and distribution of pet supplies. The products offered are homogenous in themselves and cannot be sub-divided. As an e-commerce retailer, the Group offers its products on the Internet regardless of the customer's geographic location. All key corporate processes are defined on a pan-European basis. Suppliers, brands and price structures apply European-wide and are the reason the Management Board controls the company based on key figures for the business as a whole. The Group does not prepare segment reporting because the business is not split into segments.

No individual customer accounts for more than 10 % of overall sales.

The breakdown of sales by country and product group is described in Note 21. The Group's key current and non-current assets are all held in their entirety by zooplus AG.

2.5 Foreign currency translation

2.5.1 Functional currency and reporting currency
The items contained in the financial statements of each Group company are measured using the currency that represents the currency of the primary business environment in which the company operates (functional currency). The consolidated financial statements are prepared in Euros, which is also the functional and reporting currency of zooplus AG.

2.5.2 Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the time of the transaction or, in the case of revaluations, at the time of valuation. Gains and losses resulting from these transactions and the translation of foreign currency-denominated monetary assets and liabilities are recognized in the statement of comprehensive income unless they are to be recognized in equity as qualified cash flow hedges and qualified net investment hedges. There were no net investment hedges in the 2018 financial year.

Foreign currency gains and losses resulting from the translation of cash and cash equivalents and financial liabilities, as well as other foreign currency gains and losses, are recorded in the statement of comprehensive income under "Other income" or "Other expenses."

2.5.3 Group companies

The results and balance sheet items of all Group companies (excluding those from hyperinflationary countries) that have a different functional currency than the Euro are translated into the Euro as follows:

- For each balance sheet date, assets and liabilities are translated using the exchange rate on the reporting date.
- Income and expenses are translated at average exchange rates in the statement of comprehensive income unless this average is not a reasonable approximation of the cumulative effects of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rates prevailing on the date of the transactions).
- All resulting translation differences are recognized as a separate item in "other reserves" under equity.

2.6 Property, plant and equipment

The majority of property, plant and equipment consists of operating and office equipment, hardware and leasehold improvements. Property, plant and equipment are carried at cost less cumulative scheduled depreciation and / or cumulative impairment losses. The acquisition and production costs of property, plant and equipment consist of expenses directly attributable to the acquisition that are incurred to bring the asset into an operational state. Reductions in the purchase price such as rebates, bonuses and early payment discounts reduce acquisition costs.

Subsequent acquisition and production costs are only recognized as part of the asset's acquisition / production costs or, if relevant, as a separate asset when it appears likely that the Group will retain an economic benefit from the asset in the future and the asset's costs can be reliably determined. The carrying amount of a component, which is accounted for as a separate asset, is derecognized when it is replaced. All ongoing repair and maintenance costs are recognized through profit or loss in the period they are incurred.

Acquisition and production costs do not include any borrowing costs because borrowing costs that can be capitalized under IAS 23 were not incurred. Advance payments for property, plant and equipment not yet delivered or accepted are recognized under property, plant and equipment.

Scheduled depreciation is calculated using the straight-line method, whereby acquisition costs are depreciated over the expected useful life to the asset's residual value as follows:

- Operating and office equipment 3 – 10 years
- Hardware 3 – 7 years
- Leasehold improvements 5 – 8 years

Both residual carrying amounts and useful lives are reviewed at each balance sheet date and adjusted when necessary. In accordance with IAS 36, an asset's carrying amount is impaired as soon as the carrying amount exceeds the asset's recoverable amount.

Gains and losses from disposals of property, plant and equipment are recognized through profit or loss in "Other income" or "Other expenses" as the difference between sales proceeds and the item's carrying amount.

2.7 Intangible assets

2.7.1 Software licenses
Purchased software licenses are capitalized on the basis of the acquisition costs incurred upon purchase and the expenses for preparing the software for its intended use. These costs are amortized on a straight-line basis over an estimated useful life of 3 to 5 years. In subsequent years, software licenses are measured at acquisition cost less accumulated amortization and impairment.

2.7.2 Proprietary software
Costs for the maintenance of computer software are recognized as an expense as incurred. Development costs directly attributable to the development and verification of identifiable software, over which the Group has the power of control, are recognized as intangible assets when the following criteria are met:

- Completion of the software is technically feasible.
- Management has the intention to use the software.
- The company has the ability to utilize the software.
- It can be shown how the software will likely provide a future economic benefit.
- Sufficient technical, financial and other resources are available to complete development and use the software.
- The expenses attributable to the software during its development can be assessed reliably.

The costs directly attributable to the production costs of the software include the personnel costs for the employees involved in the development.

Development costs that do not fulfill these criteria are recognized as expenses in the period they are incurred. Development costs already recognized as expenses will not be capitalized in a subsequent period.

Capitalized software development costs are amortized using the straight-line method over the software's estimated useful life (maximum of three years).

Amortization starts with the completion of the development phase and at the time the asset can be used. Amortization spans the period in which economic use is to be expected.

2.8 Impairment of non-financial assets

Assets with an indefinite useful life, such as proprietary software in the development phase, are not subject to scheduled depreciation or amortization; instead, they are tested annually for impairment. Assets subject to scheduled depreciation or amortization are tested for impairment when relevant events or changes in circumstances indicate that the carrying amount may no longer be recoverable. An impairment loss is recognized in the amount by which the carrying amount exceeds the recoverable amount. The recoverable amount is the higher of either the fair value less sales costs or the value in use. To conduct the impairment test, assets are pooled at the lowest level at which cash flows can be identified separately (CGUs). Non-monetary assets for which impairment losses were recognized in the past are assessed at each balance sheet date to determine whether a reversal of the impairment up to the amortized cost is required.

2.9 Financial investments and other financial assets

2.9.1 Classification
Beginning on January 1, 2018, the Group classifies its financial assets in the following measurement categories: (a) financial assets measured at fair value through profit or loss (FVPL), (b) financial assets measured at fair value through other comprehensive income (FVOCI) and (c) financial assets measured at amortized costs. The classification depends on the company's business model for managing financial assets and on contractual cash flows.

In the case of assets measured at fair value, gains and losses are recognized in either profit or loss or other comprehensive income. In the case of investments in equity instruments that are not held for trading, the classification depends on whether the Group has irrevocably decided at the time of first-time recognition to measure the equity instruments at fair value through profit or loss.

The Group reclassifies debt instruments only when the business model for managing such assets changes.

2.9.2 Recognition and derecognition
Regular purchases or sales of financial assets are recognized on the trading day that the Group committed to the asset's purchase or sale. Financial assets are derecognized when the rights to payments from the financial assets have expired or have been transferred, and the Group has transferred essentially all of the risks and opportunities associated with their ownership.

2.9.3 Measurement
Financial assets that do not belong to the category "Measured at fair value through profit or loss" are initially recognized at their fair value plus transaction costs. Financial assets that belong to this category are initially recognized at their fair value; corresponding transaction costs are recognized in profit or loss. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows represent solely principal and interest payments.

Debt instruments
The subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. The Group separates its debt instruments into three measurement categories:

- Measured at amortized cost: Assets that are held to receive the contractual cash flows and for which these cash flows represent solely interest and principal payments are measured at amortized cost. Interest income from these financial assets is reported in financial income using the effective interest method. Gains or losses on derecognition are recognized directly in the statement of comprehensive income under other gains / (losses).
- FVOCI: Assets that are held to receive the contractual cash flows and are available for sale, and for which the cash flows represent interest and principal payments only, are measured at fair value through other comprehensive income. Changes in the carrying amount are recognized in other comprehensive income, with the exception of impairment income or expenses, interest income and foreign currency gains and losses, which are recognized in the statement of comprehensive income. When the financial asset is exercised, the profit or loss previously recognized in other comprehensive income is reclassified from equity to the statement of comprehensive income and reported under other gains / (losses). Interest income from these financial assets is recognized in financial income using the effective interest method. Foreign currency gains and losses are reported under other gains / (losses) and impairment losses in a separate item in the statement of comprehensive income.
- FVPL: Assets which do not meet the criteria of the category "measured at amortized cost" or "FVOCI" are classified in the category "at fair value through profit or loss" (FVPL). Gains or losses on a debt instrument that is subsequently measured at FVPL are netted in profit or loss under other gains / (losses) in the period in which they arise.

In the financial year, the Group classified all financial assets as "measured at amortized cost".

Equity instruments

The Group measures all equity instruments held subsequently at fair value. If the Group's management has decided to present the effects of changes in the fair value of equity instruments in other comprehensive income, any gains and losses related to the derecognition of the instrument will not be reclassified to the statement of comprehensive income. Dividends from such instruments continue to be recognized in profit or loss under other income if the Group's claim to receive payments is substantiated.

Changes in the fair value of financial assets measured at fair value through profit or loss are recognized in the income statement under other gains ⁄ (losses). Impairment losses (and reversals of impairment losses) on equity instruments measured at fair value through other comprehensive income are not reported separately from other changes in fair value.

2.9.4 Impairment

Since January 1, 2018, the Group has assessed the expected credit losses associated with its debt instruments measured at amortized cost or at fair value through other comprehensive income on a forward-looking basis. The impairment method depends on whether there is a significant increase in credit risk.

In the case of accounts receivables, the Group applies the simplified approach permitted under IFRS 9, which requires that the credit losses expected over the term be recognized as of the first-time recognition of the receivables; for further details see Item 3.1.

2.9.5 Accounting methods applied until December 31, 2017

The Group has applied IFRS 9 retroactively, but has decided not to retroactively adjust comparative disclosures. As a result, comparative information continues to be accounted for in accordance with the Group's previously applied accounting policies.

Classification

Until December 31, 2017, the Group classified financial assets in the following categories: (a) Financial assets at fair value through profit or loss (FVPL), (b) Loans and receivables (LaR) and (c) Available-for-sale financial assets (AfS). The classification depended on the purpose for which the financial assets were acquired. Management determined the classification of financial assets on initial recognition.

There were no financial assets in the FVPL and AfS categories in the 2017 financial year.

The Group could choose to reclassify a non-derivative financial asset held for trading from the held for trading category when the financial asset was no longer held for sale in the near future. Financial assets other than loans and receivables could only be reclassified from the "held for trading" category in rare circumstances when they resulted from a single event that was unusual and would have been highly unlikely to occur again in the near future. In addition, the Group could choose to reclassify financial assets that would qualify for the definition of loans and receivables from the "held for trading" or "available for sale" categories if the Group had the intention and ability at the time of reclassification to hold these financial assets for the foreseeable future or until final maturity.

The reclassifications were made at fair value at the time of reclassification. To determine the new acquisition cost or amortized cost, the fair value had been used and no subsequent reversal had been made of the gains or losses recognized prior to the date of reclassification. The effective interest rates for financial assets that were reclassified into loans and receivables and held to maturity were determined at the date of reclassification. Further increases in the estimates of cash flows led to a prospective adjustment of the effective interest rates.

Subsequent Measurement

The valuation upon initial recognition did not change with the first-time adoption of IFRS 9; see above description.

After initial recognition, loans and receivables and held-to-maturity financial investments were carried at amortized cost using the effective interest method.

Available-for-sale financial assets and financial assets at fair value through profit or loss were subsequently carried at fair value. Gains or losses arising from changes in the fair value were recognized as follows:

- Financial assets at fair value through profit or loss – in the statement of comprehensive income under other gains / (losses)
- Available-for-sale financial assets in the form of monetary assets denominated in foreign currency – translation differences attributable to changes in the amortized cost of the asset were recognized in the statement of comprehensive income, and other changes in the carrying amount were recognized in other comprehensive income
- Other monetary and non-monetary securities classified as available for sale – in other comprehensive income.

Impairment

At the end of each reporting period, the Group examined whether there was an objective indication that a financial asset or a group of financial assets was impaired. A financial asset or a group of financial assets was impaired and impairment losses were incurred only when there was objective indication of impairment as a result of one or more events occurring after the initial recognition of the asset (a "loss event") and that loss event (or events) had an impact on the expected future cash flows that could be reliably estimated. For equity instruments designated as available for sale, a material or prolonged decrease in the fair value of the instrument below the cost of acquisition was considered to be an indicator of asset impairment.

For loans and receivables, the amount of the loss was determined as the difference between the carrying amount of the asset and the present value of the expected future cash flows (excluding future credit losses not yet incurred), discounted at the original effective interest rate of the financial asset. The carrying amount of the asset has been reduced and the amount of the loss recognized in profit or loss. For loans and receivables or held-to-maturity financial investments with a variable interest rate, the discount rate used to measure impairments was the current effective interest rate set in accordance with the contract. As an exception, the Group was able to measure impairment on the basis of the fair value of an instrument based on observable market inputs.

If, in a subsequent period, the amount of the impairment has decreased and this decrease could be objectively attributed to an event occurring after the impairment was recognized (such as an improvement in the creditworthiness rating of the debtor), the reversal was recognized in profit or loss.

If there was an objective indication of impairment of available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and fair value less any impairment loss on this financial asset previously recognized in profit or loss, was derecognized from equity and recognized in the statement of comprehensive income.

Impairment losses on equity instruments were not reversed through profit or loss in a subsequent period.

If the fair value of a debt instrument classified as available for sale increased in the subsequent period and that increase could be attributed to an event occurring after the impairment was recognized in profit or loss, the impairment loss was reversed through profit or loss.

2.10 Offsetting of financial instruments

Financial assets and liabilities are only offset and recognized on the balance sheet as a net amount when there is a legal right to offset, and the intention is to either settle on a net basis or settle the associated liability with the simultaneous sale of the asset in question.

2.11 Derivative financial instruments and hedging

For their initial measurement, derivative financial instruments are measured at the fair value attributable to these instruments on the date of entering the contract. Subsequent measurement is based on the fair value applicable on the respective balance sheet date. The method of recognizing gains and losses depends on whether the derivative financial instrument was designated as a hedging instrument and, if so, on the type of item hedged. The Group designates certain derivative financial instruments for hedging based on either

- the fair value of a recognized asset, liability or firm off-balance-sheet commitment (fair value hedge);
- specific risks of fluctuating cash flows (cash flow hedge) that are related to a recognized asset, liability, or an expected and highly probable future transaction; or
- net investment in a foreign operation (net investment hedge).

There were no fair value hedges or net investment hedges in the 2017 or 2018 financial year.

When executing a transaction, the Group documents the hedging relationship between the hedging instrument and the underlying transaction, the target of its risk management, and the underlying strategy when executing hedging transactions. At the inception of the hedging relationship, assessments are recorded to determine whether the derivatives used in the hedging relationship offset the changes in the fair value or the cash flows of the underlying transactions.

The fair values of the various derivative financial instruments used for hedging purposes and the changes in the reserves for cash flow hedges are outlined in the information on derivative financial instruments in Note 13.

The fair value of derivative financial instruments designated as hedging instruments is reported as a non-current asset or non-current liability provided the remaining term of the underlying hedged transaction exceeds twelve months from the balance sheet date or as a current asset or current liability if the remaining term is shorter. Derivative financial instruments held for trading purposes are reported as current assets or liabilities.

Cashflow hedges

The effective portion of changes in the fair value of derivatives designated as hedging instruments within the scope of cash flow hedges is recognized in the cash flow hedge reserve as a component of equity. In contrast, the ineffective portion of such changes in value is recognized directly in the statement of comprehensive income under "Other gains and losses".

If forward transactions are used to hedge expected transactions, the Group designates the change in the fair value of the forward contract (including the forward component) as a hedging instrument. Gains and losses arising from the effective portion of the change in the fair value of the entire forward contract are recognized in the hedge reserve as a component of equity.

Amounts accrued in equity are reclassified to the statement of comprehensive income and reported as either income or expense in the period the underlying hedged transaction is reported in profit or loss (for example, the point in time the hedged future sale occurs). However, if a hedged future transaction results in the recognition of a non-financial asset (such as inventories) or non-financial liability, then the gains and losses previously recognized in equity are included in the initial measurement of the acquisition or production cost of the asset or liability. In the case of inventories, the deferred amounts are ultimately recognized in cost of materials.

When a hedging agreement expires, is sold or no longer meets the criteria for hedge accounting, the gain or loss accumulated in equity until that time remains in equity and is only recognized through profit or loss in the statement of comprehensive income when the originally hedged future transaction occurs. If the future transaction is no longer expected to occur, the gains and losses recognized in equity are to be immediately reclassified to the statement of comprehensive income.

2.12 Inventories

Raw materials, consumables and supplies and merchandise purchased are measured at the lower of acquisition costs and net realizable value. Acquisition costs consist of the purchase price plus incidental purchase costs less any purchase price reductions. Acquisition costs do not contain any borrowing costs. The net realizable value is the estimated selling price in the ordinary course of business less the necessary variable selling costs. The acquisition costs for inventories also contain gains and losses from qualified cash flow hedges transferred from equity that relate to purchases of raw materials. The average cost method is used to measure the value of inventories.

2.13 Accounts receivable

Accounts receivable are amounts owed by customers from merchandise sold and services provided during the ordinary course of business. If the estimated payment is expected to be received within one year or less, the receivable is classified as a current receivable; otherwise, it is recognized as a non-current receivable. Accounts receivables are initially recognized at the amount of the unconditional consideration. The Group holds accounts receivable to collect the contractual cash flows and subsequently measures them at amortized cost using the effective interest method.

Due to the short-term nature of the receivables, their carrying amounts correspond to their fair value.

For information on impairments of accounts receivables and the default risk, foreign currency risk and interest rate risk to which the Group is exposed, please refer to Item 3.1.

2.14 Cash and cash equivalents

Cash and cash equivalents consist of cash in hand, demand deposits, other highly liquid current financial assets with original maximum terms of three months, and overdrafts. Utilized overdrafts are reported on the balance sheet as "Liabilities to banks" under current financial liabilities. The Group did not have any bank liabilities in 2017 or 2018.

2.15 Equity

Ordinary shares are classified as equity. Costs directly attributable to the issue of new shares or options are recognized in equity on a net basis after taxes as a deduction from the issue proceeds.

If the Group acquires its own shares, these shares are recorded at acquisition cost and deducted from equity. The purchase, sale, issue or withdrawal of own shares is recognized directly in equity. Any differences between the carrying amount and the consideration provided are recorded under capital reserves. At the moment, Group companies do not hold treasury shares.

2.16 Accounts payable and other liabilities

zooplus divides financial liabilities into the following categories:

Accounts payable are payment obligations for goods and services purchased in the ordinary course of business. The liabilities are classified as current liabilities if the payment obligation is due within one year or less; otherwise, they are recognized as non-current liabilities. Accounts payable and other liabilities are measured at their fair value upon initial recognition. In subsequent periods, they are measured at amortized costs by applying the effective interest method.

2.17 Current and deferred taxes

The tax expense for the period is equivalent to taxes owed on taxable income in the current period, based on the applicable income tax rate of a tax jurisdiction, and is adjusted for changes in deferred taxes attributable to temporary differences and tax loss carryforwards. Taxes are recognized on the statement of comprehensive income unless they relate to items recorded directly in equity or "other gains or losses". In this case, taxes are also recognized in equity or "other gains or losses".

Current tax expenses are calculated in accordance with the tax laws applicable on the balance sheet date (or due to come into force) in the countries where zooplus AG and the subsidiaries are operating and generating taxable income. Management routinely reviews tax declarations – particularly with respect to matters with room for interpretation – and, when appropriate, recognizes provisions based on the amounts expected to be paid to the fiscal administration.

Deferred taxes are to be recognized for all temporary differences between the tax base of the assets or liabilities and their carrying amounts in the IFRS consolidated financial statements, as well as for losses carried forward (the "liability method"). However, deferred taxes are not recognized – either on the date of initial recognition or thereafter – if deferred taxes arise from the initial recognition of an asset or liability in the context of a transaction that is not a business combination, and the deferred taxes have no effect on the profit and loss under IFRS or tax law at the time of the transaction.

Deferred tax assets are only recognized to the extent that it is likely that taxable profits will be generated that can be used to offset temporary differences or deferred tax liabilities.

Deferred tax liabilities and assets arising from temporary differences related to interests in subsidiaries are recognized unless the timing for reversing temporary differences can be specified by the Group, and because of the Group's influence, it is likely that these differences will not be reversed in the foreseeable future.

Deferred taxes are measured using the tax rates (and tax regulations) that are already in effect on the reporting date or have been largely adopted into law as of that date and are expected to become effective by the time the deferred tax assets are realized, or the deferred tax liabilities are settled. Actual tax refund claims and tax liabilities are netted if the entity has a legally enforceable right to offset and intends to settle on a net basis or to settle the obligations simultaneously with the realization of the claims.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to do so, and the deferred tax assets and liabilities relate to income taxes that are imposed by the same tax authority for either the same taxable entity or different taxable entities that intend to settle on a net basis.

The expected probable tax payment is considered the best estimation of recognized uncertain income tax positions.

2.18 Employee benefits

2.18.1 Termination benefits
Benefits from the termination of the employment relationship are paid if the employment contract is terminated by a Group company before the employee reaches customary retirement age or when the employee voluntarily terminates the employment contract in exchange for compensation. The Group recognizes severance payments when it can be proven that the Group is obligated to terminate the employment relationship with current employees under a detailed formal plan that cannot be reversed, or when it can be proven that the Group is obligated to pay compensation to employees who terminate the employment relationship voluntarily. Benefits due more than twelve months after the balance sheet date are discounted to their present value.

2.18.2 Bonus plans
Bonus payments are recognized as a liability or an expense based on a measurement method. A provision is recognized in the consolidated financial statements in cases involving a contractual obligation or when a de facto obligation is created due to past business practices.

2.18.3 Share-based remuneration
Some employees and the Management Board receive share-based remuneration in the form of equity instruments or cash.

The expenses related to granting equity instruments are measured at the instrument's fair value on the grant date. The fair value is identified using a suitable option price model. The measurement considers the conditions linked to zooplus AG's share price ("market conditions") and, if any, performance-related conditions for exercising the option.

Expenses related to the granting of equity instruments are recognized with a simultaneous corresponding increase in equity over the period in which the performance and / or exercise conditions are fulfilled. This period ends at the point in time the employee has an irrevocable right to exercise the option. At each reporting date up to the time when the option may first be exercised, the accumulated expenses from granting equity instruments reflect the elapsed portion of the vesting period and the Group's best estimate of the number of equity instruments that will ultimately become vested. Any adjustment resulting from a review as of the reporting date compared to the original estimates is recognized in profit or loss and with a corresponding adjustment to equity.

Upon exercise of the options, zooplus AG transfers the corresponding number of shares to the employees / Management Board. The proceeds received by employees / Board members from the payment of the exercise price are recognized directly in equity after deducting the transaction costs that are directly attributable.

For cash-settled transactions, the Group's liability resulting from the rendering of services is recognized at its fair value through profit or loss on the date the service is provided by the beneficiary. The fair value is calculated using a suitable option price model. The measurement considers the conditions linked to zooplus AG's share price ("market conditions") and performance-related conditions for exercising the option, if any. Until the liability has been settled, the fair value of the liability is remeasured at each reporting date, and all changes in the fair value are recognized through profit or loss.

There are no expenses recognized for remuneration rights that cannot be exercised. This does not apply to transactions settled using equity instruments for which specific market or non-exercise conditions must be fulfilled. These equity instruments are considered exercisable if all other performance and service conditions have been met regardless of whether the market or non-exercise conditions have been fulfilled.

2.19 Provisions

Provisions are recognized when the Group (a) has a current legal or de facto obligation resulting from a past event, (b) it is more likely than not that the settlement of the obligation will adversely impact net assets, and (c) the amount of the provision can be reliably determined. No provisions are recognized for future operating losses.

If several similar obligations exist, such as in the case of a legal warranty, the probability of an adverse impact on net assets is determined on the basis of the group of these obligations. A provision is also recognized when there is a low probability that net assets will be adversely impacted by a single obligation contained within this group.

Provisions are measured at the present value on the basis of management's best estimate of the expenses required to settle the present obligation at the end of the period. Hereby a pre-tax interest rate is applied that takes into account the market's current expectations of the interest rate effect and the risks specific to the liability. Increases in provisions resulting exclusively from accruing interest are recognized through profit or loss in the statement of comprehensive income as financial expenses.

2.20 Sales recognition

Sales are realized when the corresponding performance obligation is met; which occurs at the time when control over the goods or services passes to the customer. Control is transferred either at a point in time or over a period of time. The control of the merchandise sold is transferred at a point in time. In the case of discount plans, sales are recognized over a period of time corresponding to their lifetime.

Sales are equal to the contractually agreed transaction price and include the consideration that zooplus is expected to receive in exchange for the transfer of the promised goods or services to a customer. Proceeds from the sale of goods or services are recognized on a net basis, which is after the deduction of sales tax, returns, early payment discounts, customer bonuses and rebates.

Sales transactions are carried out under the legal 14-day right of withdrawal of the buyer. A provision for customer returns (reported in contract liabilities) is recognized at the end of the reporting period, thereby reducing sales. The determination of the provision is based on the actual returns in the reporting period for deliveries made during the reporting period.

The Group offers its customers various (customary) payment methods / targets. None of these includes a significant financing component. In addition, there are no contracts in which the period between the transfer of the promised good to the customer and the payment of the customer exceeds one year. Consequently, the promised consideration is not adjusted by the time value of the money.

A receivable is recognized when the goods are shipped or the service is rendered because that is the point in time when the claim for consideration arises. Accounts receivable are due between 0 and 14 days.

The Group operates its own loyalty program that gives customers an opportunity to collect bonus points with every purchase. Once a certain minimum number of points have been collected, the customer can redeem these points for products. At the time of sale, a contract liability for the points (separate performance obligation) is recorded. The proceeds from the points are recognized when they are redeemed or when they expire 12 months after the original purchase. The consideration received is split among the products sold and the bonus points awarded based on relative individual selling prices, whereby the individual selling price of the bonus points is equal to their fair value. The fair value of the bonus points is determined based on the sales price of the products offered as rewards.

The Group offers its customers the option to receive discounts over a contractually agreed period by purchasing a "zooplus discount plan." The income generated from the sales of the discount plan is deferred and recognized in contract liabilities over the period of validity of the individual discount plans.

The Group assessed its business relations to determine whether it acts as a principal or intermediary and concluded that it acts as the principal in all of its sales transactions.

2.21 Interest income

Interest income is recorded as financial income if it is received from financial assets held for liquidity management purposes. They are recognized when the interest accrues.

2.22 Leases

Leases, where a significant portion of the opportunities and risks associated with ownership of the leased object do not transfer to the Group as lessee, are classified as operating leases. Payments made under an operating lease (net amount after taking into account incentive payments and any other benefits the lessee receives from the lessor) are recognized in the statement of comprehensive income on a straight-line basis over the term of the lease.

Lease contracts for property, plant and equipment in which the Group as a lessee carries the essential opportunities and risks associated with ownership of the leased asset are classified as finance leases. Assets from finance leases are capitalized at the beginning of the lease term at the lower of the fair value of the leased assets and the present value of the minimum lease payments. A leasing liability is recognized in the same amount.

Each leasing installment is divided into interest and redemption portions. The net lease obligation is reported under current and non-current liabilities. The interest portion of the lease payment is recognized as an expense in the statement of comprehensive income, resulting in a constant interest expense over the lease term. The property, plant and equipment acquired under a finance lease are depreciated over the shorter of the following two periods: the economic useful life of the asset or the term of the lease.

Finance leases existed in the 2017 and 2018 financial year (see Items 5 and 28).

2.23 Business transactions after the balance sheet date

Business transactions that occurred prior to the balance sheet date but became known after the balance sheet date will be accounted for in the consolidated financial statements. Material business transactions that occurred after the balance sheet date are discussed in this Annual Report.

3. Financial risk management

3.1 Financial risk factors

The Group’s business activities expose it to a variety of financial risks: market risks, credit risks, currency risk, interest rate risk and liquidity risks. The Group and its product range are in competition with other providers.

The Group’s risk management focuses on managing the unpredictability of financial market developments and aims to minimize the potentially negative impact of these developments on the Group’s financial situation. The Group uses derivative financial instruments to hedge itself against specific risks.

Risk management is carried out by the central finance department according to the guidelines set out by the Management Board. The Group finance department identifies, assesses and hedges financial risks in close cooperation with the Group’s operating units. The Management Board sets out both the principles for group-wide risk management and the guidelines for specific areas such as those dealing with foreign currency risk, interest rate risk, credit risk, the use of derivative and non-derivative financial instruments, and the investment of excess cash.

When all relevant criteria are met, hedge accounting is applied to eliminate the accounting-related mismatch between the hedging instrument and the hedged item. As a result, inventories are recognized at the hedged exchange rates for the corresponding purchases. For details, see Note 13.

3.1.1 Market risk

3.1.1.1 Currency risk

The Group operates internationally making it subject to currency risk from changes in foreign currency exchange rates – mainly the US dollar as well as other main European foreign currencies. Risks related to the US dollar stem primarily from purchases made in Asia.

Currency risk arises from expected future transactions, recognized assets and liabilities denominated in a currency other than the functional currency of the Group company concerned. Management has put a guideline in place stipulating how currency risk should be managed in relation to the functional currency. The Group hedges significant foreign currency risk from expected future transactions and recognized assets and liabilities through forward exchange transactions entered into by the Group’s finance department. According to the Group’s policy, the material terms and conditions of the forward transactions and the hedged items must be the same. The Group is increasingly trying to limit this currency risk by purchasing products locally in foreign currency regions. The Group’s risk management policy envisions hedging of between 0% and 70% of the transactions expected within the following twelve months (consisting mainly of export sales and inventory purchases). The expected sales and purchases to be carried out using hedging instruments correspond with the hedge accounting criteria of a "highly probable" forecast transaction.

The effectiveness of hedging relationships is determined at the inception of the hedge and through periodic forward-looking assessments to ensure that there is an economic relationship between the hedged item and the hedging instrument.

IFRS 7 requires the use of sensitivity analyses when presenting market risks, with these analyses illustrating the effects of hypothetical changes to the relevant risk variables on the net profit / loss for the period and equity. The following representation is one-dimensional and does not take into account the feedback effects in international purchasing or on the manufacturers.

Tax effects are also not considered. The table below shows the positive and negative effects if the Euro were to gain or lose 10 % of its value versus the other currencies presented assuming all other variables remain constant. The effects break down as follows:

Currency	1 Euro = 1 MU FC Rate as of December 31, 2018	Effect on Group net result at +10 % in kEUR	Effect on Group net result at – 10 % in kEUR	Effect on other reserves at +10 % in kEUR	Effect on other reserves at – 10 % in kEUR
GBP	0.89543	109	– 133	0	0
SEK	10.2548	17	– 20	0	0
CZK	25.724	16	– 19	0	0
RON	4.6635	9	– 12	0	0
NOK	9.9483	9	– 11	0	0
HUF	320.98	8	– 10	0	0
TRY	6.0588	7	– 8	0	0
PLN	4.3014	– 208	254	0	0
USD	1.145	– 180	220	0	0
CHF	1.1269	– 81	99	2,015	– 2,576

Gains / losses from currency translation resulting from accounts payable and receivable denominated in a foreign currency effect the consolidated net result, whereby changes to the fair value of forward exchange transactions from effective cash flow hedges affect other reserves.

3.1.1.2 Interest rate risk

The Group currently uses only overdrafts and current money-market loans with variable interest rates. Interest rate risk arises when the current level of interest rates increases. No hedges are currently in place to protect against interest rate risk because the potential impact of this risk is considered minor also in the case of debt financing. Therefore, interest rate sensitivity has not been stated.

3.1.2 Credit risk

Credit risk is defined as the risk that a business partner will not be able to fulfill its obligations with respect to a financial instrument or customer contract and lead to a financial loss for the Group. The maximum scope of the zooplus Group's credit risk is equivalent to the total carrying amounts of accounts receivable, other receivables and cash and cash equivalents. There is no credit concentration risk.

In the case of banks, only contract counterparties with a good independent rating are accepted.

Credit limits are set for all customers based on internal risk classification characteristics. Outstanding customer receivables are monitored regularly.

Impairment of financial assets
At zooplus, accounts receivable are the only type of financial assets that are subject to the new model of expected credit losses.

Other current financial assets, contract assets and cash and cash equivalents are also subject to the impairment provisions of IFRS 9, but the identified impairment loss was insignificant.

The Group applies the simplified approach under IFRS 9 to measure expected credit losses. As a result, all accounts receivable are accounted for the expected credit losses over the term.

In order to measure expected credit losses, accounts receivables were aggregated on the basis of common credit risk characteristics and number of days overdue. The expected loss ratios are based on the payment profiles of sales over a period of 3 years prior to January 1, 2018 and the corresponding historical defaults in this period.

On this basis, the impairment for accounts receivables was determined as of January 1, 2018 (adoption of IFRS 9). For the reconciliation of the closing value of impairments for accounts receivables as of December 31, 2017 to the opening balance sheet value as of January 1, 2018, please refer to Note 11.

Receivables are impaired when it is not possible to collect the debt, a customer has filed personal insolvency or as a result of the statute of limitations. Accounts receivable are sold after the debt recovery processes is completed. After the sale, the Group no longer retains the related risks and opportunities.

Impairment losses on accounts receivable are shown in the statement of comprehensive income as a net impairment loss. In subsequent periods, previously impaired amounts are recognized in the same item.

Previous accounting method for the impairment of accounts receivable
In the previous year, the impairment of accounts receivable was estimated on the basis of the incurred loss model on the basis of empirical values according to maturity bands. The estimated impairment losses were recognized in a separate allowance account. Receivables for which an impairment loss was recognized were fully derecogniozed from the allowance account if no additional cash was expected to be realized.

3.1.3 Liquidity risk
Prudent liquidity risk management means having sufficient cash and cash equivalents available and funding through a reasonable amount of committed credit lines to meet obligations that come due.

The Group uses liquidity planning to continuously monitor the risk of liquidity bottlenecks. Liquidity planning takes into account cash inflows and outflows from financial assets and anticipated incoming payments generated from the operating business. Cash flow forecasts are created at the level of the individual companies and compiled at the Group level.

The Group aims to maintain a balance between continuously covering its liquidity requirements and ensuring the Group's flexibility through the use of overdrafts and loans. At times, zooplus employs cross-national cash pooling techniques for effectively managing liquidity within the Group. Any short-term liquidity bottlenecks are offset using overdrafts, if necessary. At the time of preparing these consolidated financial statements, there were unused credit lines (variable interest) of EUR 50 m available at three independently operating banks. The lines of credit have been granted without the provision of collateral until November 30, 2020. The Group is therefore not currently exposed to any liquidity risk.

The following table shows the Group's financial liabilities and derivative financial liabilities grouped by maturity based on the remaining terms as of the balance sheet date and the contractually agreed undiscounted cash flows:

kEUR	Up to 3 months	3 months up to 1 year	More than 1 year
As of December 31, 2018			
Finance lease liabilities	2,440	7,318	40,255
Accounts payable	99,735	0	0
Other liabilities (financial instruments pursuant to IFRS 7)	325	0	0
Derivative financial instruments (gross settlement)			
Cash outflow	4,650	17,971	0
Cash inflow	4,657	17,963	0
As of December 31, 2017			
Finance lease liabilities	550	1,529	8,870
Accounts payable	78,133	0	0
Other liabilities (financial instruments pursuant to IFRS 7)	6,600	0	0
Derivative financial instruments (gross settlement)			
Cash outflow	10,227	10,173	0
Cash inflow	10,006	10,006	0

3.2 Capital management

The Group's main goals with respect to capital management are to maintain and ensure an optimal capital structure to reduce the cost of capital, generate liquidity, actively manage working capital and comply with financial covenants (see Item 18).

The company is not subject to any statutory capital requirements. External minimum capital requirements are maintained in accordance with Section 92 AktG. Compliance with these requirements is reviewed during the preparation of the annual and interim financial statements. These external minimum capital requirements have been complied with in the 2018 financial year.

The Group manages its capital structure based on the equity ratio and makes adjustments when necessary, taking any changes in the underlying economic conditions into account. The equity ratio reached 47 % in the 2017 financial year. The Group had expected this ratio in the range of 35 % to 55 % in 2018 prior to the conclusion of new finance lease agreements. The equity ratio as of December 31, 2018 was 37 %.

kEUR	2018	2017
Equity	111,084	111,380
Total equity and liabilities	301,763	239,454
Equity ratio in %	**37 %**	**47 %**

3.3 Determination of fair value

The following table shows financial instruments measured at fair value broken down according to the levels of the fair value hierarchy. The different levels are defined as follows:

- Level 1: Non-adjusted quoted prices on active markets for identical assets and liabilities
- Level 2: Directly or indirectly observable input factors which cannot be as allocated to Level 1
- Level 3: Non-observable input factors

The following table shows the assets and liabilities measured at fair value as of December 31, 2018.

in kEUR	Level 1	Level 2	Level 3
Assets			
Derivative financial instruments used as hedging instruments	0	0	0
Liabilities			
Derivative financial instruments used as hedging instruments	0	52	0

The following table shows the assets and liabilities measured at fair value as of December 31, 2017.

in kEUR	Level 1	Level 2	Level 3
Assets			
Derivative financial instruments used as hedging instruments	0	0	0
Liabilities			
Derivative financial instruments used as hedging instruments	0	509	0

There were no reclassifications within the respective levels during the reporting period. The reclassification of items is carried out on a quarterly basis when circumstances arise that require a change in classification.

The fair value of financial instruments that are traded on an active market is based on the quoted market price on the balance sheet date. A market is considered active if quoted prices are easily and regularly available on a stock exchange or from a dealer, broker, industry group, pricing service or regulatory authority, and these prices represent current and regular market transactions on an arm's length basis. The appropriate quoted market price for assets held by the Group corresponds to the bid price offered by the buyer.

The fair value of financial instruments not traded on an active market (for example, over-the-counter derivatives) is determined using valuation methods. Fair value is determined using a valuation method that relies as much as possible on market data and as little as possible on company-specific data. If all data required to determine the fair value are observable, the instrument is assigned to Level 2. If important pieces of data are not based on observable market data to a greater or lesser extent, the instrument is assigned to Level 3.

Specific valuation methods used to measure financial instruments include, among, others, net present value models based on market data applicable on the reporting date.

4. Significant estimates and accounting judgments

The preparation of consolidated financial statements requires management to make estimates and assumptions that directly impact the amount of income, expenses, assets and liabilities on the balance sheet date, and the disclosure of contingent liabilities. However, the uncertainties associated with these assumptions and estimates could lead to results that may substantially affect the carrying amounts of the aforementioned items in future periods. Compared to the previous year, no changes were made to the assumptions or estimates.

Discussed below are the most important forward-looking assumptions and other key sources of estimation uncertainty that existed as of the balance sheet date and result in the risk that a material adjustment will have to be made to the carrying amounts of assets and liabilities during the next financial year.

Inventories

To measure inventory, we have estimated the recoverable amount in the ordinary course of business less any necessary variable selling costs (net realizable value) based on historical data.

Accounts receivable

Until December 31, 2017, the company used the maturity ranges of the age structure to determine impairments on accounts receivable. The overdue maturity ranges were impaired by a percentage amount between 10% and 100% based on past experience. Since the beginning of the 2018 financial year, the impairment on accounts receivable has been calculated using the expected loss model in the context of the simplified impairment approach.

As of December 31, 2018 and December 31, 2017, impairments for accounts receivable totaled EUR 3.5 m and EUR 3.2 m, respectively. The assumptions and methods applied for the estimation are described in Note 11.

Loyalty program

Various estimates are used to measure the obligations of the loyalty program. The fair value of the awarded but not yet redeemed bonus points is deferred and the fair value of a bonus point is determined using the sales prices of the various products offered as rewards. The fair value of bonus points no longer expected to be used is not deferred. To estimate the number of bonus points unlikely to be redeemed in the future the company uses the historically observed redemption and forfeiture rates and the loyalty program's current conditions for participation. Although this was recognized in other provisions in the previous year, the obligation has been reported under contract liabilities since January 1, 2018 due to the application of IFRS 15. Please refer to Item 21.

Share-based remuneration

The costs arising as a result of granting equity instruments and from cash-settled share-based payments to employees and the Management Board are measured at the fair value of the granted instruments on the grant date. To estimate the fair value of share-based payments, the most suitable measurement method must first be determined depending on the granting conditions. For this estimate, it is also necessary to determine suitable input parameters, including parameters such as the likely term of the option, volatility, dividend yield and corresponding assumptions. The assumptions and methods applied to estimate the fair value of share-based payments are presented in Note 16.

Deferred taxes

Deferred tax assets are recognized for all unused tax losses carried forward to the extent probable that adequate taxable income will be generated in the future to utilize these tax losses carried forward. The determination of the amount of deferred tax assets that can be capitalized requires significant management discretion with regard to the anticipated date of occurrence, the amount of future taxable income and future tax planning strategies.

The Group has domestic corporate tax loss carryforwards in the amount of EUR 3.1 m (previous year: EUR 0) as well as trade tax loss carryforwards in the amount of EUR 2.9 m (previous year: EUR 0). Due to sustained positive consolidated net profit in previous years, and on the basis of the future corporate planning and the existing loss carryover possibilities, the Management Board assumes that these loss carryforwards can actually be used in full. If the actual results deviate from the expectations of the Management Board, this could have an adverse effect on the net assets, financial position and results of operations. Further details on deferred taxes are explained in Note 8.

5. Property, plant and equipment

kEUR	Other equipment, operating and office equipment	Finance leasing for buildings	Total
Acquisition costs As of January 1, 2017	4,714	13,603	18,317
Additions	2,180	0	2,180
Foreign currency valuation	– 9	0	– 9
Disposals	– 70	0	– 70
As of December 31, 2017	**6,815**	**13,603**	**20,418**
Accumulated depreciation As of January 1, 2017	1,885	523	2,408
Additions	1,014	2,093	3,107
Foreign currency valuation	– 8	0	– 8
Disposals	– 43	0	– 43
As of December 31, 2017	**2,848**	2,616	5,464
Carrying amounts as of December 31, 2017	**3,967**	**10,987**	**14,954**

kEUR	Other equipment, operating and office equipment	Finance leasing for buildings	Total
Acquisition costs As of January 1, 2018	6,815	13,603	20,418
Additions	3,337	44,802	48,139
Foreign currency valuation	– 12	0	– 12
Disposals	– 159	0	– 159
As of December 31, 2018	**9,981**	**58,405**	**68,386**
Accumulated depreciation As of January 1, 2018	2,848	2,616	5,464
Additions	1,443	5,747	7,190
Foreign currency valuation	– 4	0	– 4
Disposals	– 155	0	– 155
As of December 31, 2018	**4,132**	8,363	12,495
Carrying amounts as of December 31, 2018	**5,849**	**50,042**	**55,891**

The net carrying amount of the finance leases as of December 31, 2018, amounted to kEUR 50,042 (previous year: kEUR 10,987). There are no restrictions on the disposal rights of property, plant and equipment and none of the property, plant and equipment has been pledged as collateral for debt. Property, plant and equipment consist exclusively of operating and office equipment. Buildings refer to expenses for logistics warehouses recognized as finance leases. As in prior years, there were no indications of impairment in accordance with IAS 36 as of the reporting date.

6. Intangible assets

kEUR	Proprietary software	Software / licenses	Advance payments	Total
Acquisition costs As of January 1, 2017	535	12,437	0	12,972
Additions	4,030	791	438	5,259
Foreign currency valuation	0	– 3	0	– 3
Disposals	0	– 19	0	– 19
As of December 31, 2017	**4,565**	**13,206**	**438**	**18,209**
Accumulated amortization As of January 1, 2017	535	3,411	0	3,946
Additions	0	1,215	0	1.215
Foreign currency valuation	0	– 2	0	– 2
Disposals	0	– 19	0	– 19
As of December 31, 2017	**535**	**4,605**	**0**	**5,140**
Carrying amounts as of December 31, 2017	**4,030**	**8,601**	**438**	**13,069**

kEUR	Proprietary software	Software / licenses	Advance payments	Total
Acquisition costs As of January 1, 2018	4,565	13,206	438	18,209
Additions	3,001	731	261	3,993
Foreign currency valuation	0	– 4	0	– 4
Disposals	0	– 145	0	– 145
Transfers	0	401	– 401	0
As of December 31, 2018	**7,566**	**14,189**	**298**	**22,053**
Accumulated amortization As of January 1, 2018	535	4,605	0	5,140
Additions	807	2,083	0	2,890
Foreign currency valuation	0	– 3	0	– 3
Disposals	0	– 130	0	– 130
As of December 31, 2018	**1,342**	**6,555**	**0**	**7,897**
Carrying amounts as of December 31, 2018	**6,224**	**7,634**	**298**	**14,156**

Intangible assets consist of concessions, commercial property rights and similar rights, and licenses to such rights and assets whose remaining useful life is a maximum of five years.

In the 2018 financial year, amortization of capitalized development costs amounted to kEUR 807 (previous year: kEUR 0) and was recognized in the statement of comprehensive income for the 2018 financial year. Capitalizable development costs of kEUR 3,001 (previous year: kEUR 4,030) for proprietary software were incurred in the 2018 financial year. Part of these development costs have already been amortized. Research costs were not incurred.

Software / licenses concern mainly the implementation of standard software and related expenses that can be capitalized. There are no restrictions on the disposal of intangible assets and no intangible assets have been pledged as collateral for debt.

At the time of preparing the consolidated financial statements, there were no indications of an impairment of intangible assets.

7. Other financial assets

kEUR	2018	2017
Interests in associated companies	0	38
Total	**0**	**38**

As of the 2018 financial year, the following subsidiarias were fully consolidated and included in the consolidated financial statements for the first time:

- the wholly owned subsidiary zooplus EE TOV, Kiev, Ukraine, founded in the second quarter of 2011 with share capital of kEUR 10
- the wholly owned subsidiary zooplus d.o.o., Zagreb, Croatia, founded in February 2013 with share capital of kEUR 3
- the wholly owned subsidiary Tifuve GmbH, Munich, Germany, founded in May 2013 with share capital of kEUR 25

8. Income taxes

The essential components of income tax expenses for the financial years 2018 and 2017 are as follows:

kEUR	2018	2017
Actual income taxes		
Current income taxes	– 162	– 814
Deferred income taxes		
from temporary differences	– 647	– 1,299
from tax losses carried forward	986	0
Total	**177**	**– 2,113**

To determine the current taxes in Germany, a uniform corporate tax rate of 15 % (previous year: 15 %) and a solidarity surcharge on the corporate tax rate of 5.5 % (previous year: 5.5 %) is applied to distributed and retained profits. In addition to corporate tax, trade tax was charged on profits generated in Germany. Taking into account the inability to deduct trade taxes as an operating expense, the average trade tax rate amounted to 17.15 % leading to an overall tax rate in Germany of approx. 33 %. To calculate the deferred tax assets and liabilities, the tax rates are used that apply on the date the asset is sold, or the liability is settled. Deferred tax assets and liabilities are measured using the overall tax rate of 33 %.

The reconciliation of income tax expenses and the result of net profit for the period and the applicable tax rate for the Group in financial years 2018 and 2017 is as follows:

kEUR	2018	2017
Earnings before taxes	**– 2,282**	**4,052**
Expected income tax income (previous year: expense) (32.98 %)	752	– 1,336
Deviation from the tax base used for trade taxes	– 50	– 37
Deviation from the expected tax rate	92	9
Tax losses carried forward excluding recognized deferred tax assets and impairments	– 53	– 136
Non-deductible expenses from stock options	– 568	– 411
Other non-deductible operating expenses	– 110	– 57
Non-periodic income taxes	57	– 87
Other deviations	57	– 58
Effective income tax income (previous year: expense)	**177**	**– 2,113**

Deferred taxes as of the balance sheet date are as follows:

kEUR	Deferred tax assets		Deferred tax liabilities	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Deferred taxes				
Derivative financial instruments	17	168	0	0
Finance lease assets	0	0	16,502	3,623
Finance lease liabilities	16,515	3,610	0	0
Tax loss carryforwards	986	0	0	0
Inventories	214	164	0	0
Internally generated intangible assets	0	0	2,052	1,329
	17,732	**3,942**	**18,554**	**4,952**
Of which non-current	14,260	2,925	15,283	4,262
Of which current	3,472	1,017	3,271	690
	17,732	**3,942**	**18,554**	**4,952**

After offsetting, deferred tax liabilities for the 2018 financial year equaled kEUR 822 (previous year: kEUR 1,010). Deferred tax assets were not recognized for the EUR 4.1 m (previous year: EUR 3.9 m) in foreign tax losses carried forward due to lack of recoverability. Deferred tax liabilities were not recognized for temporary differences related to interests in subsidiaries.

Unrecognized temporary differences
Temporary differences occurred in the amount of kEUR 1,730 (previous year: kEUR 1,038) as a result of the translation of financial statements of foreign subsidiaries denominated in foreign currency. Nevertheless, deferred tax liabilities were not recognized, as the liabilities would only come into play if the subsidiaries were sold, and such a sale is not expected in the foreseeable future.

Various subsidiaries have undistributed profits as of the reporting date which, if paid out as a dividend, would be taxable for the recipient. There is an estimable temporary difference, but no deferred tax liabilities have been recognized as the parent company is in a position to control the timing of this subsidiary's distributions and it is not expected that these results will be distributed in the foreseeable future.

	Derivative financial instruments	Assets under finance leases	Liabilities under finance leases	Tax loss carry-forwards	Inventories	Proprietary intangible assets
January 1, 2017	– 810	– 4,313	4,320	0	114	0
Charged (–) / credited						
in profit or loss	0	690	– 710	0	50	– 1,329
in other comprehensive income	978	0	0	0	0	0
December 31, 2017	**168**	**– 3,623**	**3,610**	**0**	**164**	**– 1,329**
January 1, 2018	168	– 3,623	3,610	0	164	– 1,329
Charged (–) / credited						
in profit or loss	0	– 12,879	12,905	986	50	– 723
in other comprehensive income	– 151	0	0	0	0	0
December 31, 2018	**17**	– 16,502	16,515	986	214	– 2,052

As of December 31, 2018, tax liabilities amounted to kEUR 123 (previous year: kEUR 1,344). These consist of provisions for corporate taxes, which relate to foreign income taxes. Receivables from income taxes amounted to kEUR 836 relating to German income taxes and receivables from income taxes relating to foreign income taxes amounted to kEUR 50.

9. Inventories

kEUR	2018	2017
Raw materials, consumables and supplies	2,012	1,061
Merchandise	105,548	103,481
Total	**107,560**	**104,542**

Raw materials, consumables and supplies consist mainly of packaging material for the mail-order business. As of the balance sheet date, the item "merchandise" was impaired by kEUR 5,161 (previous year: kEUR 5,347).

10. Advance payments

Advance payments are payments made in advance for upcoming deliveries of inventories.

11. Accounts receivable

All accounts receivable have a maturity of up to one year, are non-interest bearing and due within a period of up to 14 days. There are no restrictions on their right to disposal.

The table below provides an analysis of the accounts receivable maturity structure as of December 31, 2018:

Dec. 31, 2018	Current	30 days overdue	30 - 60 days overdue	60 - 90 days overdue	90 -180 days overdue	180 - 360 days overdue	more than 1 year overdue	Total
Expected loss ratio	0.5 %	3.0 %	14.3 %	48.5 %	87.5 %	88.1 %	91.9 %	
kEUR								
Gross carrying amount of accounts receivable	22,184	4,905	939	374	437	685	2,079	31,604
Impairment	**101**	**148**	**134**	**182**	**382**	**603**	**1,910**	**3,460**

As of December 31, 2018, impairments of kEUR 3,460 were recognized (previous year: kEUR 3,206). Since the beginning of the 2018 financial year, the impairment of accounts receivable has been calculated using the expected loss model in the context of the simplified approach.

Changes in the impairment account were as follows:

kEUR	2018	2017
As of January before IFRS 9	3,206	n / a
IFRS 9 adjustment	– 227	n / a
As of January 1	2,979	3,055
Additions	2,746	2,319
Utilization	– 2,265	– 2,168
As of December 31	**3,460**	**3,206**

12. Other current assets

kEUR	2018	2017
Creditors with net debit balance	7,591	22,355
VAT receivables	5,701	1,944
Other	2,852	3,176
Total	**16,144**	**27,475**

Creditors with net debit balances refer to claims against suppliers from accumulated volume discounts accrued in the 2018 financial year and are recognized on a net basis against the supplier. Before being netted, claims against suppliers totaled EUR 25.8 m in contrast to outstanding supplier invoices of EUR 18.2 m (see Item 17). All other current assets have maturities of one year or less.

Financial instruments amount to EUR 8.9 m (previous year: EUR 24.0 m). The decline is a result of the recording of receivables from marketing refunds from suppliers within the item contract assets.

13. Derivative financial instruments

kEUR	2018		2017	
	Assets	Liabilities	Assets	Liabilities
Derivatives – Cashflow Hedges	0	52	0	509

Derivatives are used solely for economic hedging purposes and not as speculative investments.

The derivative financial instruments held in hedge accounting are classified as current assets or current liabilities because the hedging period is less than one year. These derivative financial instruments concern cash flow hedges for hedging the currency risk from fluctuations in the CHF. Hedging is carried out using forward exchange transactions. No significant ineffective portions in hedging were detected as of December 31, 2018 reporting date.

The nominal value of outstanding forward exchange contracts totaled EUR 22.6 m as of December 31, 2018 (previous year: EUR 20.4 m). The foreign currency transactions with a high probability of occurrence that were hedged by the hedging activities are expected to occur at various times in the twelve months following the balance sheet date. Gains and losses on future contracts in foreign currency as of December 31, 2018 that are recognized in equity in the hedge reserve are recognized in the statement of comprehensive income for the period in which the hedged planned transaction affects the statement of comprehensive income (sales). This typically occurs in the subsequent twelve months.

As of December 31, 2018, the hedge reserve included the change in fair value of kEUR – 52 plus deferred tax effects totaling kEUR 17, which corresponds to a total of kEUR – 35. The hedge reserve as of December 31, 2017 totaled kEUR – 341 (kEUR – 509 including deferred tax effects of kEUR 168) and was fully recognized in the statement of comprehensive income in the 2018 financial year based on transactions that had occurred.

14. Cash and cash equivalents

kEUR	2018	2017
Bank balances	59,519	51,190
Cash on hand	2	1
Total	**59,521**	**51,191**

Bank balances earn floating-rate interest based on daily bank deposit rates. Cash flows from operating activities presented in the cash flow statement were calculated using the indirect method. As of December 31, 2018, there were no current bank overdrafts.

15. Equity

Subscribed capital

The subscribed capital corresponds with zooplus AG's share capital and totals EUR 7,143,278.00 (previous year: EUR 7,137,578.00). It has been fully paid-in and comprises no-par value bearer shares with a notional interest in share capital of EUR 1.00 per share.

In the 2018 financial year, zooplus AG's subscribed capital increased as a result of the allocation of 5,700 subscription shares from Conditional Capital 2012 ⁄ I, raising subscribed capital by EUR 5,700.00 from EUR 7,137,578.00 to EUR 7,143,278.00.

Authorized capital

The resolution by the Annual General Meeting on June 11, 2015 gave the Management Board authorization, with the approval of the Supervisory Board, to increase the company's share capital on one or several occasions in the period until June 10, 2020 by up to a total of EUR 3,492,225.00 (previous year: EUR 3,492,225.00) by issuing new, no-par value bearer shares with a notional interest in share capital of EUR 1.00 per share (Authorized Capital 2015). The capital increases can be executed against cash contribution and ⁄ or contribution in kind. Shareholders are principally entitled to subscription rights. The new shares can also be subscribed to by one or more credit institutions or similar institutions with the obligation to offer the new shares to the shareholders for subscription (indirect subscription right).

With the approval of the Supervisory Board, the Management Board is authorized to exclude shareholder subscription rights once or on several occasions

(1) to the extent it is required to exclude fractional amounts from the shareholders' subscription rights;

(2) to the extent it is required to grant holders of option rights and ⁄ or conversion rights, or option obligations and ⁄ or conversion obligations from bonds with option rights and ⁄ or conversion rights, or option obligations and ⁄ or conversion obligations issued by the company or a company in which the company holds a direct or indirect majority shareholding, a subscription right or conversion option for new shares in the amount due to them after exercising option rights and ⁄ or conversion rights or fulfilling option obligations and ⁄ or conversion obligations as a shareholder;

(3) to the extent that the new shares are issued against contributions in kind, particularly in the form of companies, parts of companies, interests in companies or other assets;

(4) to the extent that the new shares are issued against cash contributions, the issue price of the newly issued shares is not significantly below the market price of the already listed shares of the company of the same class at the time of the final determination of the issue price, and the total notional interest in share capital of the new shares to be issued under the exclusion of subscription rights does not exceed 10 % of the share capital existing at the time this authorization becomes effective or at the time of exercising this authorization. The limitation takes into account the notional interest in the company's share capital attributable to shares that were issued or sold during the term of this authorization excluding shareholder subscription rights in accordance with, as defined by or in direct application of Section 186 (3) sentence 4 AktG as well as the notional interest in the share capital attributable to shares that will be issued or are to be issued to fulfill option rights and / or conversion rights, or option obligations and / or conversion obligations from bonds, provided the bonds will be issued during the term of this authorization excluding shareholder subscription rights as defined by Section 186 (3) sentence 4 AktG.

The notional interest of share capital attributable to the new shares for which subscription rights will be excluded under the above items or based on other authorizations during the term of this authorization may not exceed 20 % of the share capital either at the time it becomes effective or at the time that this authorization is exercised.

With the consent of the Supervisory Board, the Management Board is authorized to determine additional details regarding the capital increase and the conditions of the share issue. The Supervisory Board is authorized to make amendments to the version of the Articles of Associations corresponding to the scope of a capital increase from Authorized Capital 2015.

Conditional capital

Conditional Capital 2010 / I was canceled by the resolution of the Annual General Meeting on June 13, 2018.

The company's share capital was conditionally increased by EUR 30,400.00 (Conditional Capital 2012 / I) as of the balance sheet date. Conditional Capital 2012 / I currently serves to fulfill subscription rights for up to 30,400 no-par value bearer shares and serves to secure subscription rights from stock options for company employees. The conditional capital increase will only be executed to the extent that holders of the subscription rights issued exercise their subscription rights for the company's shares based on the authorization resolved by the Annual General Meeting of May 22, 2012 as part of the Stock Option Program 2012 / I and the company does not grant its own shares to satisfy the subscription rights.

The company's share capital was conditionally increased by a further EUR 250,000.00 (Conditional Capital 2016 / I) as of the reporting date. Conditional Capital 2016 / I currently serves to fulfill subscription rights for up to 250,000 no-par value bearer shares and serves to secure subscription rights from stock options for members of the Management Board and company employees. The conditional capital increase will only be executed to the extent that holders of the subscription rights issued exercise their subscription rights for the company's shares based on the authorization resolved by the Annual General Meeting of May 31, 2016 as part of the Stock Option Program 2016 and the company does not grant its own shares to satisfy the subscription rights.

The company's share capital has been conditionally increased by a further EUR 365,000.00 as of the reporting date (Conditional Capital 2018 ⁄ I). Conditional Capital 2018 ⁄ I currently underlies the rights to subscribe up to 365,000 no-par-value bearer shares. Conditional Capital 2018 ⁄ I serves to secure subscription rights from stock options granted to members of the Management Board and company employees. The conditional capital increase will only be executed to the extent that the holders of the subscription rights issued under the 2018 stock option plan pursuant to the authorization resolution of the Annual General Meeting on June 13, 2018, exercise their subscription rights to company shares, and the company does not grant treasury shares in fulfillment of the subscription rights.

As of December 31, conditional capital was structured as follows:

EUR	2018	2017
Conditional Capital 2010 ⁄ I*	0.00	60,000.00
Conditional Capital 2012 ⁄ I	30,400.00	36,100.00
Conditional Capital 2016 ⁄ I	250,000.00	250,000.00
Conditional Capital 2018 ⁄ I	365,000.00	0.00
Total	**645,400.00**	**346,100.00**

* After adjusting for the capital increase from company funds.

Capital reserves

Capital reserves totaled EUR 100,794,343.16 as of December 31, 2018. Capital reserves increased by an amount of EUR 238,929.00 from the exercise of options originating from the Employee Stock Option Program 2012 ⁄ I.

This rise in capital reserves also resulted from the recognition of expenses from the employee stock option program (see other explanations in Note 16 contained in these Notes) in the amount of EUR 1,723,429.53 (non-cash item).

As of the reporting date, capital reserves were structured as follows:

kEUR	2018	2017
Premiums paid in rounds of financing	79,433	79,433
Converted shareholder loans	4,820	4,820
Capital increase from company funds	– 2,809	– 2,809
Premium paid-in conditional capital increase	11,106	10,867
Convertible bonds ⁄ employee stock options	8,244	6,521
Total	**100,794**	**98,832**

Other reserves

Other reserves contain the hedge reserve consisting of changes in fair value from derivative hedging instruments held under hedge accounting as of the balance sheet date, offset by deferred taxes and currency adjustment items resulting from currency differences from the translation of the financial statements of foreign subsidiaries denominated in foreign currencies.

kEUR	2018	2017
Hedge reserve	– 35	– 341
Currency adjustment items	– 1,730	– 1,038
Total	**– 1,765**	**– 1,379**

Profit ⁄ loss for the period and profit carried forward

kEUR	2018	2017
Profit carried forward as of January 1	6,789	4,851
IFRS 9 adjustment	227	n ⁄ a
Profit carried forward as of January 1 (adjusted)	7,016	n ⁄ a
Net profit for the period	– 2,105	1,938
Profit carried forward as of December 31	**4,912**	**4,851**

16. Share-based remuneration

kEUR	2018	2017
Expenses for Management Board members	1,140	924
Expenses for employees	583	322
Total expenses	**1,723**	**1,246**

Employee participation programs

Based on the resolution of the Annual General Meeting of May 22, 2012, and the consent of the Supervisory Board, the Management Board resolved the establishment of the Stock Option Program 2012 ⁄ I for issuing stock options with subscription rights for shares of zooplus AG to the company's employees. Under the Stock Option Program 2012 ⁄ I, the Management Board and Supervisory Board permit certain zooplus AG employees to subscribe to up to 100,000 no-par value shares of the company. Under this program, the stock options are issued in two tranches (50,000 ⁄ 50,000) that are each tied to different performance targets. Each option entitles the bearer to subscribe to one zooplus AG no-par value bearer share with a notional interest in the share capital of EUR 1.00 per share. The share's subscription price corresponds to the volume-weighted 1-month average price of the company's share in Xetra trading on the Frankfurt Stock Exchange before the issuing date of the stock options less a reduction of 5 % and at least the highest exercise price of all stock options already issued under the Stock Option Program 2012 ⁄ I. In the 2013 financial year, employees of zooplus AG were issued a total of 100,000 stock options. The subscription price for the options issued in April 2013 was EUR 39.55 per share and EUR 46.67 per share for the options issued in September 2013. The earliest the option rights can be exercised is four years after the options were granted. The subscription rights for stock options can only be exercised when specific performance targets have been achieved. The subscription rights can be exercised within three years from the date of the vesting period's expiration.

Based on the resolution of the Annual General Meeting of May 31, 2016 and the consent of the Supervisory Board, the Management Board resolved the establishment of the Stock Option Program 2016 for the issue of stock options with subscription rights to shares of zooplus AG to members of the Management Board of zooplus AG and selected executives of zooplus AG and affiliated companies in Germany and abroad. Under the Stock Option Program 2016, members of the company's Management Board can receive up to a total of up to 100,000 no-par-value shares of the company and selected executives of the company or of affiliated companies in Germany and abroad can receive up to 150,000 no-par-value shares of the company. Each option entitles the bearer to subscribe to one zooplus AG no-par value bearer share with a notional interest in the share capital of EUR 1.00 per share. The exercise price per share corresponds to the volume-weighted 6-month average price of the zooplus share in Xetra trading (or a comparable successor system) on the Frankfurt Stock Exchange prior to the issue date of the stock options, but at least at the minimum issue amount pursuant to Section 9 (1) AktG.

In the 2016 financial year, a total of 100,000 stock options were issued to members of the company's Management Board and a total of 48,400 stock options to the company's executives, as well as affiliated companies of zooplus AG in Germany and abroad. The subscription price for the options issued in September 2016 amounts to EUR 124.45 per share. In the 2018 financial year, a total of 85,600 stock options were issued to company executives and affiliated companies of zooplus AG in Germany and abroad. The subscription price for the options issued in April 2018 amounts to EUR 154.01 per share.

The earliest the option rights can be exercised is four years after the options were granted. The stock options can only be exercised if and to the extent that the performance targets are achieved as described below. The performance targets are linked to the absolute price development of the zooplus share during the vesting period. Depending on the price performance of the zooplus share, the beneficiaries may exercise a different number of the stock options granted to them. A third of the stock options can be exercised if the volume-weighted 6-month average price of the company's shares in Xetra trading (or a comparable successor system) on the Frankfurt Stock Exchange at the end of the vesting period is at least 20 % above the exercise price (Performance Target I, in which case a third of the stock options can be exercised), at least 30 % above the exercise price (Performance Target II, in which case two-thirds of the stock options can be exercised), and at least 50 % above the exercise price (Performance Target III, in which case all of the stock options can be exercised).

Based on the resolution of the Annual General Meeting of June 13, 2018 and the consent of the Supervisory Board, the Management Board resolved the establishment of the Stock Option Program 2018 for the issue of stock options with subscription rights to shares of zooplus AG to members of the Management Board of zooplus AG, members of management bodies of affiliated companies in Germany and abroad and selected executives and employees from zooplus AG and affiliated companies in Germany and abroad. Under the Stock Option Program 2018, members of the company's Management Board can receive up to a total of up to 150,000 no-par-value shares of the company, members of management bodies of affiliated companies in Germany and abroad can receive a total of up to 15,000 no-par-value shares of the company, selected executives and employees of affiliated companies in Germany and abroad can receive up to 200,000 no-par-value shares of the company.

In the 2018 financial year, a total of 115,000 stock options were issued to members of the company's Management Board. The subscription price for the options issued in August 2018 amounts to EUR 162.32 per share, and the subscription price for the options issued in December 2018 amounts to EUR 148.83 per share.

Each option entitles the holder to subscribe to one no-par-value bearer of zooplus AG with a notional interest in the share capital of EUR 1.00 per share. The exercise price per share corresponds to the volume-weighted, 6-month average price of the zooplus share in Xetra trading (or a comparable successor system) on the Frankfurt Stock Exchange prior to the issue date of the stock options, but at least at the minimum issue amount pursuant to Section 9 (1) AktG. The earliest the option rights can be exercised is four years after the options were granted. The stock options can only be exercised when and to the extent that the performance targets are achieved as described below: The subscription rights to stock options can only be exercised if certain performance targets have been achieved. The performance targets are based on the zooplus share's absolute price performance during the vesting period. Depending on the price performance of zooplus shares, beneficiaries may be entitled to exercise differing amounts of their allocated stock options. A third of the stock options may be exercised when the volume-weighted 6-month average price of the company's shares in Xetra trading (or a comparable successor system) on the Frankfurt Stock Exchange at the end of the vesting period is at least 20 % above the exercise price (Performance Target I, in which case a third of the stock options may be exercised), at least 30 % above the exercise price (Performance Target II, in which case two-thirds of the stock options can be exercised) and at least 50 % above the exercise price (Performance Target III, in which case all of the stock options can be exercised).

Subscription rights may be exercised within two years, starting with the end of the vesting period. All options can only be settled in equity instruments.

The fair value of the stock options granted is determined by applying a Monte Carlo simulation as of the grant date (2018 Stock Options Program) and taking into account the conditions at which the stock options were granted. The anticipated maturity of stock options is based on historical data and current expectations and does not necessarily reflect the actual exercise behavior of beneficiaries. The volatility during the stock options' expected maturity period was estimated on the basis of historical volatilities and expected future share price performance. Because the company's shares have a limited trading history, the above estimation was based on the share's volatility of the past year. Expected volatility is derived based on the assumption that past volatility can serve as an indication of future trends, whereby the actual future volatility can deviate from the assumptions made.

Stock Option Program (SOP) for the Management Board	2018 1st issue	2018 2nd issue
Average share price (EUR)	147.00	147.40
Expected volatility (%)	34.8	34.3
Risk-free interest rate (%)	–0.36	–0.41
Dividend yield (%)	0.0	0.0
Anticipated term of options (in years)	4.0	4.0

Stock Option Program (SOP) for employees	2018
Average share price (EUR)	160.50
Expected volatility (%)	34.1
Risk-free interest rate (%)	–0.25
Dividend yield (%)	0.0
Anticipated term of options (in years)	4.0

The development of stock options is as follows:

	2012 / I*	2016	2018
Outstanding at beginning of reporting period	12,600	146,200	0
Expired during the reporting period	0	– 4,600	0
Forfeited during the reporting period	– 5,700	0	0
Granted in the reporting period	0	85,600	115,000
Outstanding at end of the reporting period	**6,900**	**227,200**	**115,000**

** Each option authorizes the subscription to one share*

The exercise price for shares still outstanding as of December 31, 2018 was in the range of EUR 39.55 to EUR 162.32 per share. The weighted average share price on the date the options were exercised was EUR 153.81 (previous year: EUR 172.90). At the end of the reporting period, 6,900 (previous year: 12,600) options were exercisable. The weighted average remaining contractual term for the outstanding stock options as of December 31, 2018 was 2.83 years (previous year: 2.75 years).

Cash-settled share-based remuneration

Long-term incentive program for the Management Board
A long-term incentive program in the form a share price-based performance share plan granted in annual tranches was offered until the end of the third quarter of 2016 to create performance incentives for executives when extending the contracts of existing Management Board members. For each tranche, a number of virtual shares in the company is allocated depending on EBT target achievement. These shares are subject to a vesting period of three years and can result in a cash payout to the company's Management Board members when the vesting period expires.

The number of virtual shares is equivalent to the ratio of the EBT-dependent base amount and the average issue reference price for the company's shares. The calculation basis for the EBT base amount is the EBT according to the company's previous year's consolidated financial statements that were approved by the Supervisory Board and prepared pursuant to IFRS. Target achievement is defined as the achievement of specific EBT targets from the company's planning.

As of the December 31, 2018 reporting date, the members of the Management Board are entitled to a total of 6,826 subscription rights (2017: 11,966) from this program with a fair value of kEUR 946.

The fair value of the virtual shares granted was calculated using a valuation model recognized by IFRS 2. The following parameters were used in the calculation as of December 31, 2018:

Cash-settled share-based remuneration (LTI) for the Management Board	2016 tranche	2015 tranche
Share price on the reporting date in EUR	118.90	118.90
Initial reference price in EUR	146.5	117.8
Expected volatility (%)	35.96	37.73
Risk-free interest rate (%)	0.0	0.0
Remaining term in years	1.4	0.4

The development was as follows:

kEUR	2018	2017
Obligations from cash-settled share-based remuneration	946	2,116
Total	**946**	**2,116**

The obligation is accounted for under current and non-current liabilities. The personnel expenses recognized for the 2018 financial year are as follows:

kEUR	2018	2017
Income (previous year: expense) from cash-settled share-based remuneration	+300	–660
Total	**+300**	**–660**

In the 2018 financial year, expenses from share-based payments from the issue of equity instruments amounted to kEUR 1,723. In contrast, income from the reversal of provisions for share-based payments with cash settlement amounted to kEUR 300. The 2014 tranche of the share-based payment with cash settlement amounted to kEUR 870 and was paid out to the members of the Management Board in the 2018 financial year. In the previous year, total expenses for both components totaled kEUR 1,906.

17. Accounts payable

Accounts payable are due within one year and are non-interest bearing. Payment periods usually vary between 0 and 60 days. Supplier liabilities totaling EUR 18.2 m were reclassified in assets as creditors with net debit balance and offset against receivables from these suppliers. See Item 12.

18. Financial liabilities

Since the fourth quarter of 2017, zooplus AG has had flexible credit lines totaling EUR 50.0 m at three independent banks without the provision of collateral and with a term until November 30, 2020. In 2018, these credit lines were partially utilized on a small scale. The resulting interest and provision commission account for EUR 0.2 m of the company's financial expenses. There were no liabilities to banks at the end of the year.

Covenants in the form of a minimum equity ratio of 25.0% and an EBITDA of a minimum of more than zero – before adjustments based on new accounting and measurement methods – are in place for existing credit lines of EUR 50.0 m. The Management Board expects to continue to meet the covenants' terms in the future.

19. Other current liabilities

kEUR	2018	2017
Tax liabilities		
VAT	14,570	12,744
Wage and church taxes	1,067	1,162
Sub total	**15,637**	**13,906**
Additional other liabilities		
Creditors with net debit balances	0	6,082
Profit-sharing and bonuses	2,195	2,399
Employee vacation obligations	1,268	1,048
Financial statement and auditing costs	150	120
Other	678	1,010
Sub total	**4,291**	**10,658**
Total	**19,928**	**24,564**

Other current liabilities have maturities of one year or less and are non-interest bearing. Creditors with net debit balances were recognized in contract liabilities in the 2018 financial year.

Financial instruments amounted to EUR 0.3 m (previous year: EUR 6.6 m).

20. Provisions

kEUR	Current				Non-current	
	Loyalty rewards	Returns	Outstanding contributions	Other	Share-based cash remuneration	Total
As of January 1, 2017	4,166	519	2,065	1,301	1,504	9,555
Additions	3,959	757	1,039	64	612	6,431
Reclassifications	0	0	0	926	–926	0
Reversals	484	0	1,082	469	0	2,035
Utilization	3,682	519	878	234	0	5,313
As of December 31, 2017	**3,959**	**757**	**1,144**	**1,588**	**1,190**	**8,638**
IFRS 15 reclassifications	–3,959	–757	0	–399	0	–5,115
As of January 1, 2018	0	0	1,144	1,189	1,190	3,523
Additions	0	0	1,212	173	0	1,385
Reclassifications	0	0	238	549	–787	0
Reversals	0	0	103	225	82	410
Utilization	0	0	708	902	0	1,610
As of December 31, 2018	**0**	**0**	**1,783**	**784**	**321**	**2,888**

Provisions for loyalty rewards (unredeemed bonus points) from the customer loyalty program, as well as provisions for customer returns and sales vouchers have been reported under contract liabilities since the beginning of the 2018 financial year. This reporting change is the primary reason for the decline in other current provisions.

With regard to the provision for share-based cash remuneration, we refer to our comments in Note 16.

Current provisions are anticipated to have a cash outflow during the current 2019 financial year.

21. Sales

kEUR	2018	2017
Germany	308,006	272,724
France	223,750	186,921
Poland	110,124	80,115
Italy	108,143	90,494
Great Britain	105,939	91,248
The Netherlands	85,098	73,178
Spain	76,633	62,832
Belgium	61,345	48,745
Switzerland	41,788	30,430
Austria	37,866	32,265
Czechia	32,695	25,998
Denmark	30,218	24,756
Sweden	27,098	22,108
Finland	24,086	20,460
Other countries	68,912	48,359
Total	**1,341,701**	**1,110,633**
Timeline of sales recognition		
At a certain point in time	1,338,195	n / a
Over a period of time	3,506	n / a
Total	**1,341,701**	**1,110,633**

The Group's sales mainly consist of the sales of pet supplies in Germany and other European countries to external customers.

A total of 85 % of sales were mainly generated from the sale of food and the remaining 15 % mainly from the sales of accessories.

The Group recognized the following contract assets and liabilities from contracts with customers:

kEUR	2018	2017
Current contract assets from contracts with suppliers for marketing services	**19,013**	**n / a**
Current contract liabilities from		
Advance customer payments and customer refunds	8,031	n / a
Customer loyalty programs	4,496	n / a
zooplus discount plans	2,858	n / a
Customer returns	1,233	n / a
Customer vouchers	501	n / a
Current contract liabilities (Total)	**17,119**	**n / a**

The table below shows the sales recognized in the reporting period that were included in the contract liability balance at the beginning of the reporting period.

kEUR	2018	2017
Sales recognized that were included in the contract liability balance at the beginning of the reporting period		
Advance customer payments and customer refunds	2,522	n / a
Customer loyalty programs	2,515	n / a
zooplus discount plans	2,109	n / a
Customer returns	757	n / a
Customer vouchers	218	n / a
Total	**8,121**	**n / a**

22. Other income

kEUR	2018	2017
Income from marketing services	0	44,985
Income from currency gains	4,087	3,897
Income from late fees	779	630
Income from donations	593	429
Other income	3,102	2,817
Total	**8,561**	**52,758**

New provisions of IFRS 15 led to changes in the reporting structure and, consequently, to a sharp reduction in other income to kEUR 8,561 in 2018 compared to kEUR 52,758 in 2017. Income from marketing services in the form of marketing refunds has been offset against the cost of materials since the 2018 financial year.

23. Own work capitalized

In the 2018 financial year, zooplus again focused on intensifying its expansion and improvement of its proprietary software platform. The development work that resulted led to the capitalization of internally generated intangible assets and own work capitalized in the amount of kEUR 2,801 (previous year: kEUR 3,469).

24. Personnel expenses

kEUR	2018	2017
Wages and salaries	40,292	33,326
Social security contributions	6,787	5,811
Total	**47,079**	**39,137**

With regard to personnel expenses incurred under share-based payments, we refer to Note 16.

The average number of employees during the financial year was 635 people (previous year: 512, excluding the Management Board). Of this total, 68 employees were allocated to Operations, 243 to IT, 248 to Sales and Marketing and 76 to Administration.

25. Other expenses

kEUR	2018	2017
Logistics & fulfillment costs	263,752	219,943
Marketing costs	29,100	19,267
Payment transaction expenses	11,419	11,336
IT services	7,065	6,425
Currency losses	4,697	4,567
Customer service	5,664	4,463
Office leases	3,315	2,358
Legal and advisory costs	3,004	2,088
Additional other operating expenses	9,880	8,876
Total	**337,896**	**279,323**

Logistics and fulfillment expenses relate to warehousing, order picking and shipping products sold to end customers.

New regulations under IFRS 9 led to the separate recognition of impairment losses on financial assets and contract assets in the amount of kEUR 2,746 in 2018, while the previous year's figure of kEUR 2,319 was still reported under other expenses.

26. Financial income and expenses

kEUR	2018	2017
Interest income and similar income	0	21
Interest expenses and similar expenses	– 771	– 418
Total	**– 771**	**– 397**

27. Earnings per share

When computing basic earnings per share, the net profit / loss attributable to the parent company shareholders is divided by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share are computed by dividing the net profit / loss attributable to the parent company shareholders by the weighted average number of ordinary shares outstanding during the year plus any stock options causing dilution.

The amounts underlying the computation of basic and diluted earnings per share are as follows:

		2018	2017
Consolidated net profit / loss	EUR	– 2,104,590.68	1,938,313.80
Weighted average number of no-par-value shares outstanding	Number of shares	7,140,356	7,095,036
Dilution effect			
Stock options	Number of options	n / a[1]	34,380
Weighted average number of no-par-value shares outstanding			
adjusted for dilution	Number of shares	n / a[1]	7,129,416
Basic earnings per share	EUR / share	– 0.29	0.27
Diluted earnings per share	EUR / share	– 0.29	0.27

[1] No dilution due to a loss situation

28. Leases

Finance lease liabilities of EUR 50.0 m relate to future lease payments in connection with leased assets that pertain to fulfillment centers. The leases have varying terms, termination clauses, price adjustment clauses and renewal rights.

In the past financial year, EUR 5.7 m was recognized as depreciation and EUR 0.5 m as interest expense. The leases expire on December 31, 2024. The minimum lease payments for these finance lease liabilities in the 2018 financial year were as follows:

kEUR Lease payments due	1 year or less	1 -5 years	More than 5 years	Total
Minimum lease payments	10,406	38,332	3,113	51,851
Interest expense for lease liabilities on the respective reporting date	648	1,172	18	1,838
Present value of lease payments	9,758	37,160	3,095	50,013

The minimum lease payments for these finance lease liabilities in the 2017 financial year were as follows:

kEUR Lease payments due	1 year or less	1–5 years	More than 5 years	Total
Minimum lease payments	2,279	9,256	0	11,535
Interest expense for lease liabilities on the respective reporting date	200	386	0	586
Present value of lease payments	2,079	8,870	0	10,949

kEUR	12/31/2017	Additions	Cash outflow	12/31/2018
Lease liabilities	10,949	44,588	– 5,524	50,013

The Group leases office buildings, vehicle fleets and IT equipment under non-cancellable operating leases, which run for one to nine years. The leases have different terms, termination clauses and extension rights. As of the reporting date, the following obligations under these leases existed under the specified maturities:

One year or less	kEUR	10,162
Between one and five years	kEUR	17,566
More than five years	kEUR	6,611

These obligations concern mainly lease payments for fulfillment centers. The expense recognized in the 2018 financial year under operating leases amounted to EUR 12.3 m (previous year EUR 13.4 m).

29. Related party disclosures

With the exception of the salaries paid to executive bodies (see Note 33), there were no notable relationships between the Group and related parties during the year under review. Expenses related to stock options for members of the Management Board are detailed in Note 16. Mr. Stahl, Dr. Stoeck, Mr. Greve and Mr. Holland are the only Supervisory Board members who hold shares in the company. All transactions with related parties are carried out on terms that are also customary for transactions with third parties.

30. Collateral

There was no collateral as of December 31, 2018.

31. Additional information about financial assets and financial liabilities

Fair value is the amount an asset could be exchanged or a liability settled between knowledgeable, willing and mutually independent business partners.

The following table displays the carrying amounts and fair values of all of the financial instruments contained in the consolidated financial statements and shows the allocation of the assets and liabilities or parts of the balance sheet items to the measurement categories pursuant to IFRS 9:

kEUR	Measurement category 31/12/2018	Measurement category 31/12/2017	Carrying amount		Fair value	
			31/12/2018	31/12/2017	31/12/2018	31/12/2017
Financial assets						
Accounts receivable	AC	LaR	28,144	26,388	28,144	26,388
Other financial assets	n/a	AfS	n/a	38	n/a	n/a
Other current assets						
of which financial instruments pursuant to IFRS 7	AC	LaR	8,853	23,958	8,853	23,958
Derivative financial instruments	n/a	n/a	0	0	0	0
Cash and cash equivalents	AC	LaR	59,521	51,191	59,521	51,191
Total			**96,518**	**101,575**	**96,518**	**101,537**
Financial liabilities						
Accounts payable	FLaC	FLaC	99,735	78,133	99,735	78,133
Other liabilities						
of which financial instruments pursuant to IFRS 7	FLaC	FLaC	325	6,600	325	6,600
Finance lease liabilities	n/a	n/a	50,013	10,949	50,013	10,949
Derivative financial instruments	n/a	n/a	52	509	52	509
Total			**150,125**	**96,191**	**150,125**	**96,191**

AC (Amortized Cost)
LaR (Loans and Receivables)
AfS (Available for Sale)
FLaC (Financial Liability at amortized Cost)

The market values of the cash and cash equivalents, accounts receivable, current assets, accounts payable and other current liabilities as of December 31, 2018 and December 31, 2017 equal their carrying amounts. This is primarily due to the short maturities of these types of instruments.

The Group's financial liabilities excluding finance lease liabilities are all short-term in nature and have maturities of one year or less. Of the finance lease liabilities, kEUR 40,255 are long-term in nature. Repayments of the existing financial liabilities are made from operating and financial cash flow.

Grouped according to the measurement categories of IFRS 9, the carrying amounts are as follows:

kEUR	Measurement category 31/12/2018	Measurement category 31/12/2017	Carrying amount 31/12/2018	Carrying amount 31/12/2017	Fair value 31/12/2018	Fair value 31/12/2017
Financial assets						
Loans and Receivables	AC	LaR	96,518	101,537	96,518	101,537
Available for Sale	n/a	Afs	n/a	38	n/a	n/a
Financial liabilities						
Financial Liability at amortized Cost	FLaC	FLaC	100,060	84,733	100,060	84,733

Net gains or losses in relation to financial instruments are as follows:

kEUR	2018	2017
Impairment of financial assets (previous year: Loans and Receivables)	–2,746	–2,319
Total	**–2,746**	–2,319

As of December 31, 2018, there was no offsetting of derivative financial instruments. Offsetting options for derivatives exist in the case of insolvency. As of December 31, 2018, only derivatives with negative fair values existed.

32. Subsequent events

After the end of the 2018 financial year, there were no events of particular importance that impact the net assets, financial position and results of operations.

33. Executive bodies

Members of the Management Board:

- Dr. Cornelius Patt, CEO (Corporate Management, overall responsibility for Business Development & System Development, IT, Human Resources)
- Andreas Grandinger (Finance, Controlling, Legal, Investor Relations, Internal Audit)
- Andrea Skersies (Sales & Marketing, Category Management) until November 30, 2018
- Dr. Mischa Ritter (Logistics and Supply Chain Management) since December 1, 2018
- Florian Welz (Sales & Marketing, Procurement, Category Management) since December 1, 2018

The remuneration of the management that is required to be disclosed under IAS 24 includes the remuneration of the Management and Supervisory Boards.

The principles of the remuneration system and the amount of remuneration of the Management and Supervisory Boards are presented and explained in detail in the Remuneration Report. The Remuneration Report is part of the combined management report.

The total remuneration of the Management Board (German Commercial Code – HGB) for all components amounted to EUR 3.9 m in the 2018 financial year (previous year: EUR 1.1 m). The 2018 financial year was largely impacted from granting stock options under the 2018 Stock Options Program in the amount of EUR 2.6 m.

Remuneration under IAS 24 amounted to EUR 2.2 m in the 2018 financial year (previous year: EUR 2.7 m). The post-employment benefits of former members of the Management Board amounted to kEUR 208 (previous year: kEUR 0).

Management Board remuneration under IAS 24 in kEUR	2018	2017
Short-term benefits	1,278	1,126
Share-based payments	894	1,584
Total remuneration	**2,172**	**2,710**

kEUR	12/31/2018	12/31/2017
Provisions for share-based payments	946	2,116
Total provisions	**946**	**2,116**

Members of the Supervisory Board:

- Christian Stahl (Chairman of the Supervisory Board), Partner and Managing Director of Amlon Capital LLP, London, United Kingdom
- Moritz Greve (Deputy Chairman of the Supervisory Board), Partner and Managing Director of Maxburg Capital Partners GmbH, Munich, Germany
- Karl-Heinz Holland, freelance business consultant, Oberstenfeld, Germany
- Ulric Jerome, Director of MatchesFashion Limited (MatchesFashion.com), London, United Kingdom
- Henrik Persson, founder and manager of Sprints Capital Management Ltd., London, United Kingdom
- Dr. Norbert Stoeck, freelance corporate consultant, Munich, Germany

Supervisory Board members receive non-performance-related remuneration paid annually in the amount of kEUR 40, the chair of the Supervisory Board receives kEUR 80 and chairs of committees receive an additional kEUR 5. In the year under review, the members of the Supervisory Board received the following compensation in accordance with their membership in committees:

	Supervisory Board	Audit Committee	Personnel Committee	Nomination Committee	Remuneration in kEUR
Christian Stahl	Chair		Chair	✓	85
Moritz Greve	Deputy Chair	✓	✓	Chair	45
Karl-Heinz Holland		✓			40
Ulric Jerome			✓		40
Henrik Persson				✓	40
Dr. Norbert Stoeck		Chair			45
Total					**295**

The compensation of the Group's key management personnel, which is required under IAS 24, includes the remuneration of the members of the Management Board and the Supervisory Board. The members of the Management Board and the Supervisory Board and their other mandates are shown in the management report. The principles of the remuneration system and the amount of the remuneration of the Management Board and the Supervisory Board are presented and explained in detail in the Remuneration Report. The "Remuneration Report" is part of the management report.

34. Auditor's fees

The auditor's total fee for auditing the annual and consolidated financial statements is comprised of the following components:

Total fee in kEUR	**2018**	**2017**
a) Auditing services	268	254
b) Other assurance services	20	0
c) Tax consulting services	105	42
d) Other services	0	0
Total	**393**	**296**

The fee for auditing services mainly related to the statutory audit of zooplus AG's annual and consolidated financial statements. The fee for tax consulting services includes tax consultation related to projects concerning transfer prices. Fees for other assurance services pertain to the review of the summarized separate non-financial report.

35. Statement on corporate governance

zooplus Aktiengesellschaft has issued the Declaration of Conformity with the "German Corporate Governance Code" required by Section 161 of the German Stock Corporation Act (AktG) and made this available to its shareholders on the company's website at http://investors.zooplus.com/en/home.html.

Munich, March 14, 2019

The Management Board

Dr. Cornelius Patt   Andreas Grandinger   Dr. Mischa Ritter   Florian Welz

Responsibility Statement of the Management Board

To the best of our knowledge, and in accordance with the applicable accounting standards, the consolidated financial statements provide a true and fair view of the Group's net assets, financial position and results of operations, and the combined management report presents the Group's business performance, including the financial performance and the financial position, in a manner that gives a true and fair view and describes the principal opportunities and risks of the company's anticipated development.

Munich, March 14, 2019

Dr. Cornelius Patt	Andreas Grandinger	Dr. Mischa Ritter	Florian Welz

Independent auditor’s report

To zooplus AG, Munich

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

Audit Opinions

We have audited the consolidated financial statements of zooplus AG, Munich, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from January 1 to December 31, 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of zooplus AG, which is combined with the Company’s management report, for the financial year from January 1 to December 31, 2018. In accordance with the German legal requirements, we have not audited the content of those parts of the group management report listed in the “Other Information” section of our auditor’s report.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § [Article] 315e Abs. [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at December 31, 2018, and of its financial performance for the financial year from January 1, 2018 to December 31, 2018, and
- the accompanying group management report as a whole provides an appropriate view of the Group’s position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the content of those parts of the group management report listed in the “Other Information” section of our auditor’s report.

Pursuant to § 322 Abs. 3 Satz [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as “EU Audit Regulation”) and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the “Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report” section of our auditor’s report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 1 to December 31, 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matters of most significance in our audit were as follows:

1. Recognition of revenue from business with customers, income from savings plans, and contract liabilities for bonus points
2. Recognition and measurement of inventories

Our presentation of these key audit matters has been structured in each case as follows:

1. Matter and issue
2. Audit approach and findings
3. Reference to further information

Hereinafter, we present the key audit matters:

1 Recognition of revenue from business with customers, income from savings plans, and contract liabilities for bonus points

1. In the consolidated financial statements of zooplus AG, revenue amounting to EUR 1.341,7 million is reported in the consolidated statement of comprehensive income. It relates to, among other things, the sale of merchandise via various online portals in Germany and other European countries. Since large-volume transactions are involved, the company has established comprehensive processes and systems for recognizing and deferring revenue. In addition, zooplus AG offers its customers the opportunity to get discounts on future purchases for a contractually specified period by purchasing "zooplus savings plans." The income from the sale of a saving plan is deferred and transferred to profit or loss as revenue over the periods of validity of the individual savings plans. Moreover, zooplus AG operates an independent bonus points program developed by the Company, under which customers have the opportunity to collect bonus points with each purchase. The consideration received is split between the products sold and the bonus points issued on the basis of the relative stand-alone selling prices, whereby the stand-alone selling price of the points equals their fair value. The fair value of the bonus points is determined on the basis of the selling prices of the premium products, deferred until they are utilized, and only recognized as revenue when the points are redeemed and zooplus AG has fulfilled its contractual obligations. A corresponding contract liability is recognized in the amount of the fair value. As of the balance sheet date, contract liabilities of EUR 4.496 million were recognized in this regard. Contract liabilities for bonus points that have been awarded but are no longer expected to be used are reversed to profit or loss.

   Due to the complexity of the processes and systems established for recognizing revenue as a significant item in terms of its amount as well as the use of measurement methods to determine the contract liability for bonus points that are dependent to a large extent on the estimates and assumptions made by the executive directors, these matters were of particular significance during our audit.

(2) During our audit, we assessed, among other things, the appropriateness and effectiveness of the Company's internal control system established to settle and realize revenue, including the IT systems used. In doing so, we also included our specialists in the Risk Assurance Service (RAS). We audited the revenue by, among other things, selecting samples of individual transactions with customers on the basis of statistical methods and inspecting the underlying documents. Accordingly, we examined whether revenue had been recognized in full. We also assessed whether revenue had been allocated to the correct periods or correctly deferred. In relation to revenue recognition, we paid particular attention to whether income from savings plans had been recognized in the correct period. In addition, we evaluated the consistency of the methods used to recognize revenue. In order to assess the appropriateness of the contract liabilities for bonus points recognized as of the balance sheet date, we examined, among other things, their measurement and the underlying assumptions and parameters derived therefrom. Furthermore, we evaluated the consistency of the measurement method used and the mathematical accuracy of the calculation of the contract liabilities for bonus points.

Overall, we were able to satisfy ourselves that the established systems and processes as well as controls in place are appropriate and that the estimates and assumptions made by the executive directors are sufficiently documented and substantiated to ensure that revenue and contract liabilities for bonus points are appropriately recognized.

(3) The Company's disclosures on revenue and contract liabilities for bonus points are contained in section 21 of the notes to the consolidated financial statements.

2 Recognition and measurement of inventories

(1) Inventories of EUR 107,6 million are reported in zooplus AG's consolidated financial statements. Inventories comprise primarily merchandise. To manage large volumes of inventories, the Company has established comprehensive processes and systems for recording, managing, and measuring inventories. Inventories are measured at the lower of cost and net realizable value. Cost is determined on the basis of weighted averages. zooplus AG uses derivative financial instruments, in particular currency forwards, to hedge foreign currency risks in forecast procurement transactions. If the financial instruments are effective hedges of future cash flows in the context of hedging relationships in accordance with the requirements of IFRS 9, the effective portion of the changes in fair value are recognized over the duration of the hedging relationships directly in equity until the occurrence of the hedged cash flows (hedge accounting). The cost of inventories therefore also includes gains or losses reclassified from equity that result from hedge accounting and relate to the purchase of inventories. The net realizable value is determined on the basis of the estimated sales proceeds to be generated in the normal course of business, less in particular selling expenses still to be incurred. All identifiable risks in inventories, especially those resulting from above-average storage periods or reduced marketability, are reflected by recognizing allowances as of the balance sheet date.

From our point of view, given the Company's growth and the technical complexity of the processes and systems used, this significant item in terms of its amount was of particular significance for our audit.

2 As part of our audit, we assessed, among other things, the Company's processes and systems regarding purchasing, warehousing and distribution. In addition, we examined that inventories existed and were fully recorded by, among other things, observing physical inventory counts using statistical methods. Moreover, we evaluated the initial measurement at cost and the calculation of the weighted average. In assessing the appropriateness and effectiveness of the established internal control system, including the IT systems used, we also included our specialists in the Risk Assurance Service (RAS). Where purchases of inventories in foreign currency were hedged with foreign currency hedges, we examined that any resulting effects were – if necessary – reflected in determining the cost of the inventories concerned. .For assessing the accounting of foreign currency hedging instruments, including the impact on equity and profit or loss, we involved our specialists from Corporate Treasury Solutions (CTS). Together with these specialists, we assessed, among other things, the risk management system with regard to derivative financial instruments, including the internal activities to monitor compliance with the hedging policy. In our audit of the fair values of the hedging transactions, we recalculated the forward exchange transactions using adequate tools and market data. With respect to the hedging of expected future cash flows, we mainly carried out an assessment of the expected future hedge effectiveness, the fulfilment of the effectiveness requirements according to IFRS 9 and the IFRS9 compliant hedge documentation. We obtained bank confirmations in order to assess the completeness of the recorded transactions. We examined the calculation of net realizable value and satisfied ourselves that they had been calculated consistently and transparently. We evaluated the appropriateness and accuracy of the underlying parameters and assessed whether these parameters had been adequately documented and substantiated.

Based on our audit procedures, we were able to satisfy ourselves that the estimates and assumptions made by the executive directors for the purpose of recognizing and measuring inventories are sufficiently documented and substantiated.

3 The Company's disclosures on inventory measurement and derivative financial instruments are contained in sections 9. and 13 of the to the consolidated financial statements.

Other Information

The executive directors are responsible for the other information. The other information comprises the following non-audited parts of the group management report

- the statement on corporate governance pursuant to § 289f HGB and § 315d HGB included in section 7 of the group management report
- the separate non-financial report pursuant to § 289b Abs. 3 HGB and § 315b Abs. 3 HGB

The other information comprises further the remaining parts of the annual report – excluding cross-references to external information – with the exception of the audited consolidated financial statements, the audited group management report and our auditor’s report.

Our audit opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.

- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on June 13, 2018. We were engaged by the supervisory board on November 5, 2018. We have been the group auditor of the zooplus AG, Munich, without interruption since the financial year 2012.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Katharina Deni.

Munich 14 March 2019

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Katharina Deni	Sebastian Stroner
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This annual report is also available in German. In case of discrepancies the German version prevails. A digital version of this zooplus AG annual report and the interim reports can be downloaded from the Investor Relations section of www.zooplus.com.

Forward looking Statements

This report contains forward-looking statements. These statements are based on current experience, estimates and projections of the management and currently available information. They are not guarantees of future performance, involve certain risks and uncertainties that are difficult to predict, and are based upon assumptions as to future events that may not be accurate. Many factors could cause the actual results, performance or achievements to be materially different from those that may be expressed or implied by such statements. Such factors include those discussed in the Risk Report from page 75 to 80. We do not assume any obligation to update the forward-looking statements contained in this report.

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