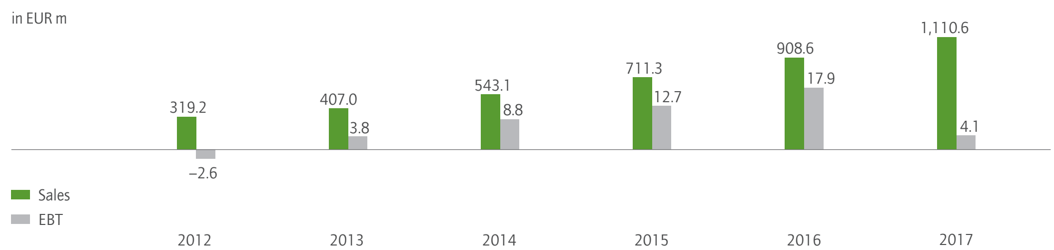
zooplus

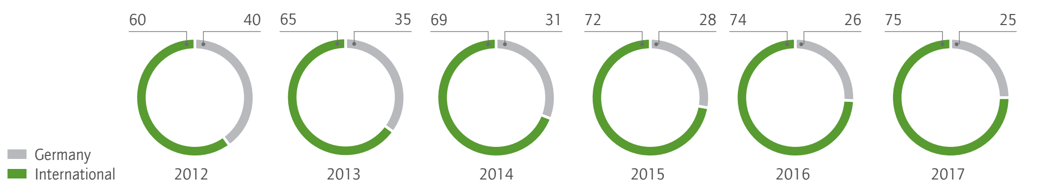
Annual report
2017

Key figures

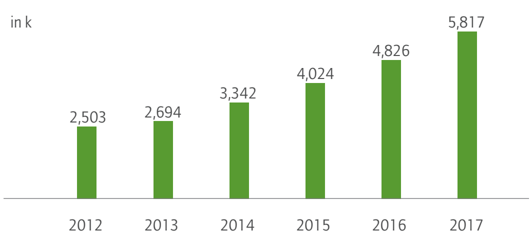
Sales and EBT 2012–2017



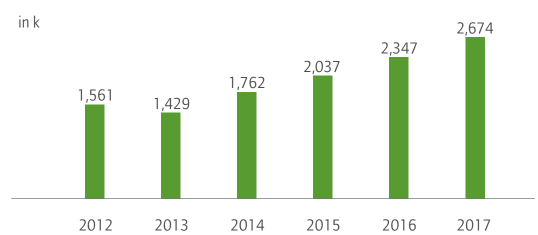
Sales by region in %



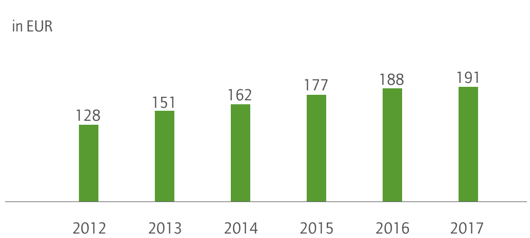
Active customers[1]



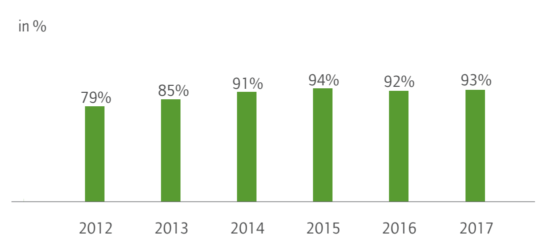
New customers



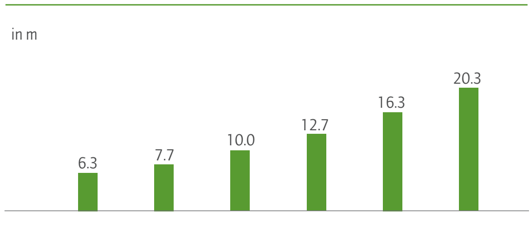
Sales per customer[2]



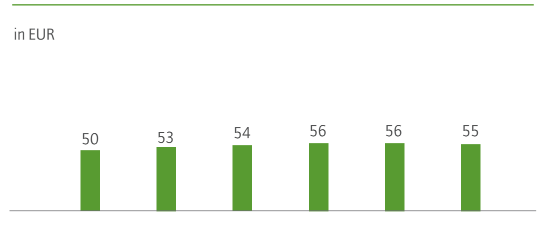
Sales retention rate



Number of orders



Average shopping basket[2]



[1] incl. new customers / one-time purchase
[2] net

Multi-year performance

		2012	2013	2014	2015	2016	2017
Sales	in EUR m	319.2	407.0	543.1	711.3	908.6	1,110.6
Other income	in EUR m	16.3	19.9	27.8	31.3	43.4	52.8
Cost of materials	in EUR m	– 214.2	– 279.8	– 393.0	– 518.2	– 681.6	– 839.6
Gross margin	in %	32.9 %	31.3 %	27.6 %	27.1 %	25.0 %	24.4 %
EBITDA	in EUR m	– 1.8	4.9	9.9	15.4	19.7	8.8
EBT	in EUR m	– 2.6	3.8	8.8	12.7	17.9	4.1
EPS - Earnings per share [1]	in EUR	– 0.35	0.29	0.83	1.13	1.63	0.27
Employees	number	217	253	267	313	386	512
Total assets	in EUR m	65.4	83.7	138.6	165.3	207.6	239.5
Inventories	in EUR m	32.3	43.7	65.0	74.5	78.8	104.5
Equity	in EUR m	33.9	36.7	86.2	93.2	107.9	111.4
Equity ratio	in %	51.9 %	43.9 %	62.2 %	56.4 %	52.0 %	46.5 %

[1] Basic EPS

Statement of income Q1–Q4 / 2017

		Q1 / 2017	Q2 / 2017	Q3 / 2017	Q4 / 2017
Sales	in EUR m	256.9	259.8	277.8	316.1
Cost of materials	in EUR m	– 191.8	– 198.4	– 210.8	– 238.6
Gross margin	in %	25.3 %	23.6 %	24.1 %	24.5 %
EBITDA	in EUR m	4.5	2.8	0.3	1.2
EBT	in EUR m	3.4	1.7	– 0.9	– 0.1

Highlights 2017

Sales rise 22 % to EUR 1,111 m

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

Growth accelerates in the second half of 2017

Sales retention rate remains at very high level of 93 %; strong increase in new business in the second half of 2017

Continued expansion of logistics infrastructure

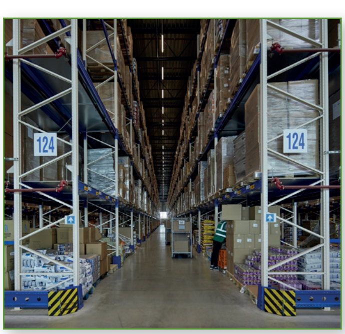
New fulfillment centers in Coventry (UK), Mühldorf (GER) and Boleslawiec (PL) successfully integrated into the zooplus logistics network

Positive earnings before taxes (EBT) of EUR 4.1 m

Earnings affected by additional investment in competitive attractiveness, marketing, logistics and personnel

Positive operating cash flow of EUR 3.3 m

Strong growth almost entirely financed by further improvement in working capital



Company profile zooplus AG

zooplus AG, founded in 1999, has been operating for more than 18 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 company's sales have risen from EUR 80 m to a total of EUR 1,111 m in the 2017 financial year.

Pet supplies are a major market segment in the European retail landscape. In 2017, 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 2018, sales are expected to increase again by 21 % to 23 %.

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 edge 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 at a solid 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

Dear Ladies and Gentlemen, Dear Shareholders,

The Management Board of zooplus AG is pleased to report the successful continuation of the company's growth in the 2017 financial year. The company was able to further strengthen its market position in 2017 and profit from the growing importance of online retailing of pet supplies. Last year almost 6 million customers enjoyed the convenience and advantage of purchasing pet products online at zooplus.

In the overall growing market for pet supplies, zooplus increased sales for the first time by more than EUR 200 m in 2017 reaching a total of EUR 1,111 m for an increase of 22 % compared to the prior year. On a currency-adjusted basis, excluding mainly the British pound, sales grew even 23 %. In the fourth quarter of 2017, zooplus achieved sales of more than EUR 300 m for the first time ever in a single quarter, again marking impressive record growth. Overall sales in 2017 were slightly below our original target of at least EUR 1,125 m. This was mainly the result of slower sales growth in the new customer business in the first half of 2017, particularly in the second quarter. After making the appropriate changes, new customer business in the second half-year saw a significant pickup, resulting in accelerated sales growth and a marked increase in the number of new customers acquired.

In September 2017, the Management Board of zooplus AG revised its expectations for earnings before taxes for the 2017 financial year from a range of EUR 17 m to EUR 22 m to a single-digit-million amount. Faced with a consistently competitive market, the zooplus AG Management Board placed even more emphasis on continuing its strong sales growth, expanding its excellent market position and increasing its investment in the areas of marketing, logistics and IT. The Management Board is firmly convinced that these measures are the most effective means of ensuring the company's long-term value appreciation.

In the 2017 financial year, earnings before taxes (EBT) reached a level of EUR 4.1 m. The ongoing improvement in working capital in the 2017 financial year meant that the high level of growth could once again largely be financed internally, despite lower earnings. Operating cash flow for the financial year amounted to a positive EUR 3.3 m.

Our performance in the year 2017 is another confirmation that zooplus is pursuing the right strategy by focusing on sustainable growth and generating significant increases in sales. We are the clear market leader in online retailing, with 30 markets across Europe. zooplus also narrowed the gap to the leader in Europe in terms of the overall all market – in brick-and-mortar and online retailing – and assumed the number 2 position in 2017.

Despite ongoing fierce competition from both online and brick-and-mortar competitors, existing customer loyalty remained very strong, again underscoring the strong allure of our attractive product range.

In 2018, we will continue to make it a priority to consistently grow and invest in our product range as announced in the second half of 2017. Our specific financial targets include

- sales growth between 21 % and 23 %
- earnings before taxes (EBT) in the range -0.5 % to +0.5 % of sales

We will continue to align the structure of the organization with the growing size of the company. Sustained investment in our employees is a high priority for us so that we can achieve the growth we have targeted in all areas and support the associated value appreciation as best as possible.

We continued to vastly expand our IT development activities in 2017 and have positioned our development capacities on a much broader basis. With over 160 IT software developers, we are ideally prepared to develop our IT platform further and expand our customer-oriented services.

We have also added to our logistics capacity in 2017 and are particularly pleased with the opening of a logistics center in Great Britain, which acknowledges the great importance of the British market within Europe. We opened a logistics center in Antwerp at the end of 2016, making it the fifth of our large centers, and have now fully integrated it into our logistics process. In the last quarter of 2017, two more mid-sized, specialized logistics centers in Germany and Poland were added to the zooplus AG logistics network. In the year 2018, our logistical base will expand alongside our expected growth enabling us to continually optimize the local delivery to our customers.

Our zooplus and bitiba shops are now in 30 countries in Europe providing nearly 6 million active customers an excellent, customer-friendly shopping experience and the best possible service. All of our activities reflect our clear focus on providing superior customer satisfaction.

We would like to extend our sincere appreciation to our employees throughout Europe for their hard work, their loyalty and their performance. They are an important part of zooplus AG's success.

To all of our customers, suppliers and other business partners, we would like to thank you for your trust and cooperation in the 2017 reporting year and for helping us to continue our growth and success.

Lastly, we would especially like to thank you, our shareholders, for your support. We appreciate your faith in us, and we will continue to work our hardest for zooplus AG's successful and continuous expansion.

Dr. Cornelius Patt　　Andrea Skersies　　Andreas Grandinger

(CEO)

Report of the Supervisory Board

Dear Shareholders,

During the 2017 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

Once again, 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 2017 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 2017 financial year, the Supervisory Board met for four scheduled, personally attended meetings on March 16, 2017, May 31, 2017, September 14, 2017 and November 30, 2017. 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, which 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 and significant measures taken by the Management Board to manage the business. 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 16, 2017 (balance sheet meeting), the Supervisory Board focused on the current business development, as well as the business development of the 2016 financial year. The Supervisory Board reviewed the annual financial statements and management reports of zooplus AG and the Group as of December 31, 2016 presented by the Management Board. The Supervisory Board approved the auditor's results and the annual financial statements and thereby adopted the annual financial statements as of December 31, 2016. The Supervisory Board also approved the Management Board's proposal for the appropriation of retained profits. In this context, the Supervisory Board also dealt in depth with the corporate governance in the company. The meeting's agenda also included the expansion of the company's logistics capacity and the adoption of the issues for the internal audit in 2017. The Management Board also provided the Supervisory Board with an update on IT developments in terms of structure and personnel. The key theme of the Supervisory Board was the area of "Purchasing."

In April 2017, the Supervisory Board adopted by written circular procedure the resolution proposals to the 2017 Ordinary Annual General Meeting.

Following the Ordinary Annual General Meeting of zooplus AG, the Supervisory Board assembled at its meeting on May 31, 2017 and dealt with appointments to its committees. Thereafter, the Supervisory Board and Management Board addressed strategic issues and several current operating issues.

In the Supervisory Board meeting on September 14, 2017, the key discussion items included the opening of three new fulfillment centers in Germany and Poland, as well as the prolongation of existing credit framework agreements. The Supervisory Board and Management Board also dealt in detail with the current business development and discussed an even more focused corporate strategy on high sales growth. A potential change in the guidance communicated for the 2017 financial year by the Management Board was also discussed in this context. Another important topic on the agenda was the topic Corporate Social Responsibility.

In November 2017, the Supervisory Board approved by means of a resolution by circular procedure the lease of additional office space in Munich in anticipation of the further growth of the company and its workforce.

In the meeting on November 30, 2017, the Management Board reported on current business and market developments and presented the zooplus AG 2018 financial plan to the Supervisory Board who approved the plan after a review and discussion. Also on the meeting's agenda was the compliance with the recommendations of the German Corporate Governance Code in its current version and submitting the updated Declaration of Conformity. In connection with this, the Supervisory Board also discussed the results of the efficiency review of its activities and adopted a competency profile for the Supervisory Board, among other things. In addition to operational matters, the Management Board and the Supervisory Board jointly discussed various organizational topics, particularly the further structural development of the company's organization.

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 reporting year 2017 were Mr. Christian Stahl (Chair), Mr. Moritz Greve, Mr. Henrik Persson and Dr. Norbert Stoeck. Mr. Karl-Heinz Holland and Mr. Ulric Jerome, who were initially judicially appointed as of December 1, 2016 until the end of the 2017 Ordinary Annual General Meeting, were elected as members of the Supervisory Board by the 2017 Annual General Meeting. The members of the Supervisory Board as a whole are familiar with the sector, in which the company operates. Dr. Stoeck, inter alia, qualifies as financial expert, as defined in Section 100 (5) AktG.

The Management Board consists of three members: Dr. Cornelius Patt (CEO), Ms. Andrea Skersies and Mr. Andreas Grandinger.

Supervisory Board committees

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

During the reporting year 2017, 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 year under review. In the meeting on March 9, 2017, the Audit Committee dealt extensively with the separate financial statements and consolidated financial statements of zooplus AG for the 2016 financial year. In subsequent meetings in 2017, 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 included 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 Personnel Committee, which was initially set up after the 2016 Annual General Meeting, included Mr. Stahl (Chair of the Personnel Committee), Mr. Greve and Mr. Jerome. The Personnel Committee did not hold a physical meeting in the year under review. The task of the Personnel Committee is to prepare the personnel decisions of the Supervisory Board plenum, which decides 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 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 a physical meeting in the year under review.

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, 2017

During the Supervisory Board's financial statement meeting on March 15, 2018, 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), and the consolidated financial statements prepared according to IFRS, each as of December 31, 2017, the company's management report and group management report for the 2017 financial year and the proposal of the Management Board on the appropriation of retained profits. The auditor's reports, the financial statements of zooplus AG and the Group prepared by the Management Board, and the management reports of zooplus AG and the Group as well as the Management Board´s proposal on the appropriation were presented to the Audit Committee and the Supervisory Board on schedule giving them sufficient opportunity to review the 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 to approve the financial statements prepared by the Management Board. Upon a thorough examination of the annual financial statements prepared according to German accounting standards (HGB), the consolidated financial statements prepared according to IFRS, and the management reports, the Supervisory Board concurred with the respective auditor's reports. According to the final result of the examination by the Audit Committee and the Supervisory Board's own examination no objections were raised. The Supervisory Board approved the annual and consolidated financial statements at its meeting on March 15, 2018 and thereby adopted the annual financial statements of zooplus AG. The Supervisory Board also approved the management report, the group management report and the assessment of the company's future development. The Supervisory Board agreed with the Management Board's proposal on the appropriation of retained profits after the matter was discussed in the Audit Committee and following the Supervisory Board's own review.

Finally, the Supervisory Board approved this report to 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 2018

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/investorrelations.html (see also the management report on page 85).

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, 2016, the company has complied with the recommendations of the "Government Commission German Corporate Governance Code" (the "Code") in the version dated May 5, 2015 and the revised version dated February 7, 2017 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 4.2.5: The company does not report the individual remuneration of Management Board members in accordance with the resolution of the Annual General Meeting on May 22, 2012, under which disclosures pursuant to Section 285 no. 9 a) p. 5-8 HGB and Section 314 (1) no. 6a) p. 5- 8 HGB are not provided. The annual and consolidated financial statements of zooplus AG as of December 31, 2016 were the last statements to be governed by the resolution of the Annual General Meeting on May 22, 2012. zooplus AG will comply with this recommendation going forward and will, therefore, no longer need to declare a deviation.

Item 5.4.1 (2) sentence 1 (in the Code version dated February 7, 2017: 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 to the role of deputy chairperson of the Supervisory Board or to 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 6.2: zooplus AG discloses the interests held by members of the Management Board and Supervisory Board in zooplus AG in accordance with legal requirements when these interests have reached, exceeded or fallen below the legal reporting thresholds pursuant to Section 21 of the German Securities Trading Act (WpHG). The company also discloses all "managers' transactions" pursuant to Article 19 of the Market Abuse Regulation. The Management and Supervisory Boards believe that these mandatory disclosures provide a sufficient level of information to investors and the general public. The recommendation set out in Item 6.2 of the Code has been eliminated in the version dated February 7, 2017 so that from the time of the Code version's publication on April 24, 2017 and in the future there is no deviation to declare.

Item 7.1.2 sentence 2: The Management Board does not discuss semi-annual or quarterly reports (since the publication of the Code in its version of February 7, 2017: interim financial information) with the Supervisory Board or its audit committee before publication. Such discussions could otherwise lead to delays in the dissemination of capital market information.

Item 7.1.2 sentence 4 (in the Code version dated February 7, 2017: 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.

Munich, December 1, 2017

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.

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.

The Management Board consists of three members: Dr. Cornelius Patt (CEO), Ms. Andrea Skersies and Mr. Andreas Grandinger.

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 management report, the proposal for the appropriation of retained profits, the consolidated financial statements and the group management report. 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 is 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. The composition of the Supervisory Board in the reporting year was as follows: The Supervisory Board consisted of Christian Stahl (Chair), Moritz Greve, Henrik Persson and Dr. Norbert Stoeck. Karl-Heinz Holland and Ulric Jerome, the judicially appointed members of the Supervisory Board as of December 1, 2016 until the end of the 2017 Annual General Meeting, were elected as members of the Supervisory Board by the 2017 Annual General Meeting. When proposing the election of Supervisory Board members to the Annual General Meeting, the Supervisory Board took into account the objectives described below with regard to the Board's composition.

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 2017. 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, and internal corporate guidelines (compliance), and the risk management system.

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 not 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 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 2017 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's 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 2017 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 three members. One of these members is a woman. In accordance with Section 111 (5) AktG, the zooplus AG Supervisory Board decided that this ratio should be maintained as the target ratio until June 30, 2021. This target is currently being met.

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 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 2017 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 for the first time in the 2017 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/investorrelations.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 (formerly referred to as directors' dealings and since the introduction of the Market Abuse Regulation (MAR) referred to as manager's transactions) on the company's website at http://investors.zooplus.com/en/investorrelations.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/investorrelations.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 2017 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 12, 2018 and that of the Supervisory Board on March 15, 2018 with respect to the 2017 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 and management report as of December 31, 2017 (HGB) and the zooplus Group consolidated financial statements and group management report as of December 31, 2017 (IFRS) 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 an external trusted 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.

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 2017, the European market for both online and bricks-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's sales surpassed EUR 1.1 bn for the first time.

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 its core 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 markets 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.

Products are shipped to customers from five large central logistics hubs in Hörselgau, Germany; Tilburg, the Netherlands; Wroclaw, Poland; 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 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 in 25 markets offering a broad range of regionally oriented pet products. In addition to the company's website and its comprehensive range of 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.

zooplus served more than 5.8 million active customers in 2017. A persuasive product range, attractive prices and reliable, fast delivery, guaranteed by a high-performance infrastructure, combine to position the company as the clear number 1 online retailer of pet supplies in Europe.

zooplus's European market presence

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

Years represent date of market entry
* 2005
** 2008

The zooplus value chain

2017 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. Because zooplus is already operating across almost all of Europe, it is not planning to enter any new countries in 2018.

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.

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's corporate strategy.

In an environment where there is intense competition for outstanding employees in every area, zooplus AG makes sure that its salaries are always competitive. Employee compensation consists of fixed and variable components as well as intangible benefits that may vary depending on country-specific standards.

zooplus recognized early on that diversity in hiring is a key factor for success. The interaction of people with different ideas, strengths, skills and cultural backgrounds can lead to the best solutions for the challenges ahead. zooplus employs 53 different nationalities across all locations. In 2017, the company's proportion of female employees was 47 %.

zooplus's management approach combines an overall performance evaluation with an assessment of individual target achievement, the employee's personal growth curve in their current role, as well as his or her opportunities for development. Personal meetings between supervisors and employees are held at least once or twice a year to foster a performance culture while at the same time individually motivating employees as best as possible to achieve their goals.

zooplus key personnel data

53
Nationalities

47 %
Women

512
Employees

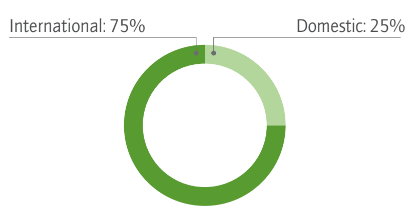
53 %
Men

34
Years
Ø

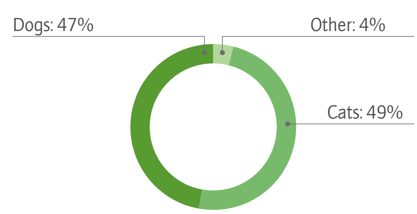
Procurement and product range

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.

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 a 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.

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, Rocco, Cosma and Smilla brands, as well as the company's other private brands (Lukullus, Purizon, MyStar, 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 2017 financial year, sales of private label products continued to grow at an extraordinary pace reaching sales of over EUR 120 m and rising to roughly 11 % of overall sales. In addition to private label pet food and cat litter – which constitutes this 11 % figure – zooplus also sells pet accessories 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's 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** – Premium nutrition that harnesses the power of nature: high-quality, natural ingredients, manufactured in a conscientious manner
Wolf of Wilderness	**Dry and wet food and snacks** – wild and free! Pet food inspired by the wolf's natural instincts and ancestral diet
briantos Premium Dog Food	**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
DogMio	**Dry food and snacks** – Dog food and snacks offering unbeatable value for money
zooplus bio	**Wet food** – Organic dog food with raw ingredients from certified organic farms and the humane treatment of animals.
zooplus classic	**Wet food** – From pure muscle meat and quality innards for a special meaty taste
zooplus Selection	**Wet food** – like homemade! Unprocessed wet food with a high proportion of choice meet enhanced with fruits and vegetables.

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 % protein/meat, 30 % fruits and vegetables and is grain-free
Greenwoods	**Dry and wet food and snacks** – 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, Poland; Chalon-sur-Saône, France; and Antwerp, Belgium. Medium-sized logistics centers in Strasbourg, France; Coventry, UK; Mühldorf, Germany; Boleslawiec, Poland; and Istanbul, Turkey complement these hubs for certain types of orders. There is also a smaller specialized logistics location in Jirikov, Czech Republic, focused on non-prescription veterinary medicines that delivers select products to specific target markets. All main locations operate in cooperation with three international logistics partners who are responsible for the operative handling of fulfillment activities. The logistics partners provide the investment necessary to set up the logistics centers so that zooplus does not incur any investment costs (CAPEX). 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 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.

Logistics centers

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

❶ 34,000 m²	❺ 16,000 m²	❾ 8,000 m²
❷ 30,000 m²	❻ 5,000 m²	❿ 2,500 m²
❸ 27,000 m²	❼ 5,000 m²	⓫ 3,000 m²
❹ 21,000 m²	❽ 10,000 m²	

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 headquarter 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 is important for the business model is initiated almost exclusively in-house and carried out on a proprietary basis or with external help. This approach yields customized, highly flexible solutions for a scalable business model. External partners are always used to augment internal expertise and implementation capacity when in-house expertise is insufficient or unavailable. 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.

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 desktop, tablet, smartphone or by using the zooplus app, placing the company in an ideal position to increase the share of its sales via mobile platforms. In 2017, more than 25 % of the company's total sales were conducted via mobile platforms. To be effective, it is crucial that there is no interruption in the media during the potential customer's search. This is the reason the company focuses on 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 1.7 % of sales at zooplus AG in 2017. 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.

These efforts attracted a total of 2.7 million new customers in 2017. Customer acquisitions are expected to remain high 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 2017, zooplus AG was able once again to maintain an exceptional level of customer loyalty reaching a sales retention rate of 93 %. 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

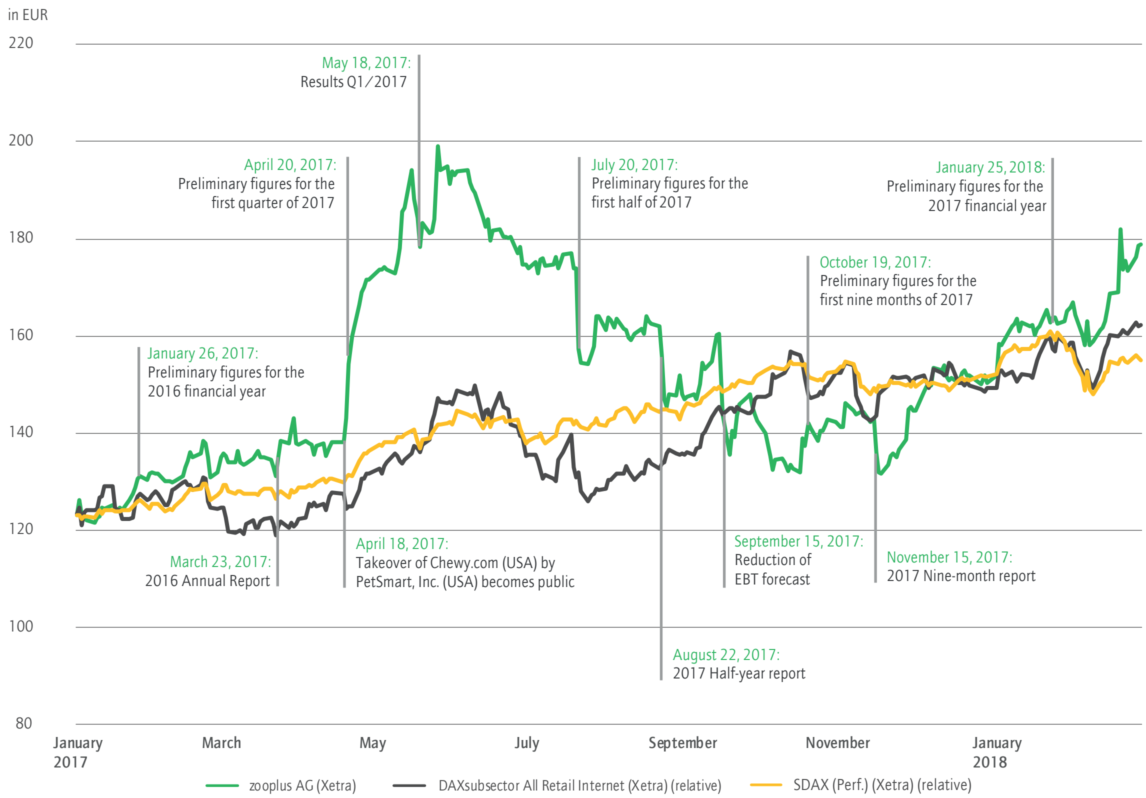
The company strives to maintain its position as the unmistakable quality and service leader among competitors in terms of customer satisfaction and continuously enhances its range of products and services. zooplus carries out routine comprehensive customer surveys and also relies on independent studies, such as the Cologne-based eCommerce Center (ECC) survey of 8,000 online shoppers in January 2017, which confirmed the high level of customer satisfaction among zooplus customers. In this survey, zooplus was ranked number one out of 79 online stores in Germany. The criteria included price / performance, website design, user-friendliness, product range, customer service, payment options and shipping and delivery. The survey also analyzed customer satisfaction and loyalty.

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 (bricks-and-mortar and online retailing) after Fressnapf and ahead of Pets at Home, once again narrowing the gap to the market leader in 2017. 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 bricks-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 participating in the online market's projected ongoing strong growth.

The zooplus AG share

Stock chart zooplus AG: January 2, 2017 to February 28, 2018



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.

2017 / 18 share performance

The year 2017 was a very positive year for the stock market overall, where robust global economic growth climbed above the long-term average, inflation and interest rates stayed low, the consequences of Brexit appeared tolerable thus far, and political risks declined following the election outcomes in France and the Netherlands. These factors created very positive sentiment in the stock market and supported a substantial rise in zooplus shares, which closed the year on December 29, 2017 at a price of EUR 150.30 in Xetra trading, for a 23.7 % increase in the share price versus the year-end closing price on December 30, 2016 (EUR 121.50). During the April to June period, the shares trended sharply higher after the announcement of the takeover of the online pet supply chain Chewy.com (USA) by PetSmart, Inc. (USA). On May 25, 2017, the zooplus shares reached their peak for the reporting year at a Xetra closing price of EUR 199.00. The shares recorded their low for the year on January 9, 2017 at a closing price of EUR 121.50.

At the end of the first half-year on June 30, 2017, zooplus AG shares closed at EUR 174.00 in Xetra trading. At the end of the third quarter on September 29, 2017, the shares closed the day at EUR 142.50.

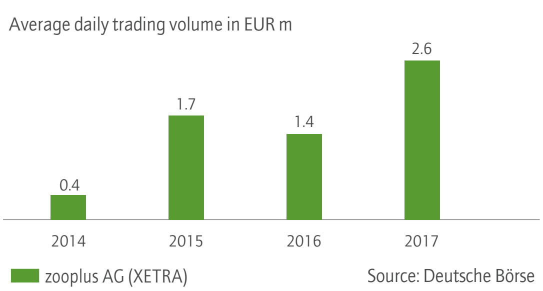
zooplus AG is a component of the SDAX and the DAXsubsector All Retail Internet sector index. Based on a 23.7 % increase in the share price in 2017, zooplus AG shares outperformed the DAXsubsector All Retail Internet sector index, which gained 22.9 %. The SDAX gained 24.9 % in 2017.

From the beginning of the 2018 financial year until the editorial deadline of this report on February 28, 2018, zooplus shares succeeded in outperforming their benchmark indices. The shares' closing price of EUR 178.80 on February 28, 2018 was 19.0 % higher than the closing price for the year 2017. In this same period, the SDAX only managed a rise of 2.1 %, and the sector index rose by 8.7 %.

Capital measures and market capitalization

zooplus began the year 2017 with a total of 7,060,902 shares outstanding. By the year's end on December 31, 2017, this number had increased to 7,137,578 due to the exercise of stock options. The company's share capital at the end of 2017 increased accordingly to EUR 7,137,578.00. Based on a closing share price of EUR 178.80 in Xetra trading, the market capitalization of zooplus AG as of the editorial deadline of this report on February 28, 2018 amounted to EUR 1,276.2 m.

zooplus share liquidity significantly higher in 2017



At EUR 2.6 m, the average daily trading volume of zooplus shares in 2017 was significantly higher than in the previous year. The average daily trading volume in the shares in 2017 was EUR 2.6 m compared to EUR 0.4 m in 2014. This amounts to more than a six-fold increase in trading volume in the 2017 financial year.

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, 2016	7,060,902.00
Share capital in EUR as of December 31, 2017	7,137,578.00
Number of shares as of December 31, 2017	7,137,578
Initial listing	May 9, 2008
Initial issue price*	EUR 13.00
Share price as of December 30, 2016	EUR 121.50
Share price as of December 29, 2017	EUR 150.30
Percentage change (since December 30, 2016)	+23.7 %
Period high	EUR 199.00
Period low	EUR 121.50

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.

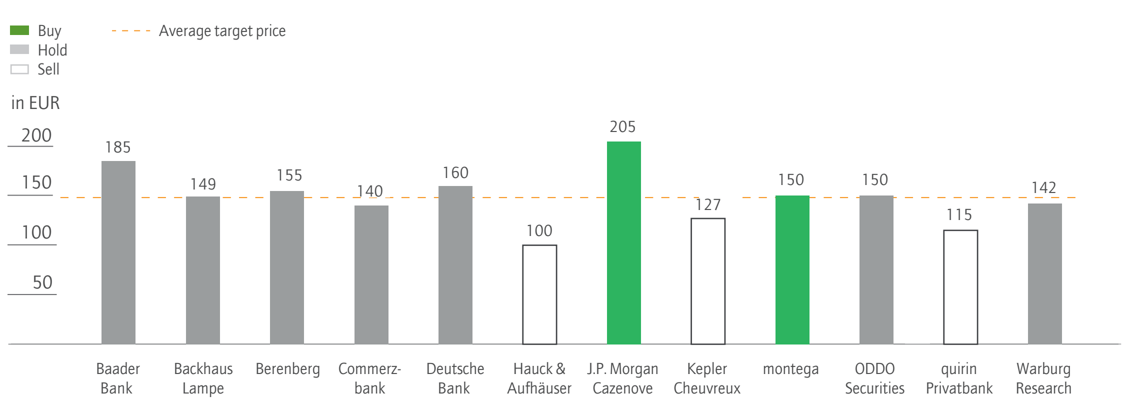
To achieve this, the investor relations department and the Management Board are available at all times for all those interested. To provide even greater access to information, the company holds conference calls and webcasts when it publishes its final quarterly results. Following these events, the public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

In 2017, the Management Board participated in 12 investor conferences in Germany and abroad as part of its involvement in investor relations activities. In addition, the company held roadshows in Frankfurt, London, Paris, Zurich, Madrid and New York, among others. On March 23, 2017, the company held its first Capital Markets Day in London. The Management Board and investor relations department were also available to investors and analysts for questions and private meetings. A total of 12 investment banks currently follow zooplus AG and publish research regularly on the company.

In the 2017 capital market competition Investors' Darling, zooplus AG ranked first among SDAX companies and fifth in the overall ranking of all 160 DAX companies. In this competition, which has been held annually since 2014, the Chair of Accounting and Auditing at the HHL Leipzig Graduate School of Management assesses all 160 DAX companies with respect to their financial communications in the fields of financial reporting, investor relations and capital markets.

Analysts

Analyst recommendations for zooplus AG as of February 28, 2018



Latest updates

Institution	Analyst	Latest update
Baader Bank	Bosse, Volker	February 26, 2018
Bankhaus Lampe	Schlienkamp, Christoph	November 15, 2017
Berenberg	Paganetty, Henrik	January 25, 2018
Commerzbank	Riemann, Andreas	January 25, 2018
Deutsche Bank	Naizer, Nizla	January 25, 2018
Hauck & Aufhäuser	Dannenberg, Lars	November 16, 2017
J.P. Morgan Cazenove	Olcese, Borja	September 19, 2017
Kepler Cheuvreux	Mauder, Nikolas	January 25, 2018
Montega AG	Buss, Timo	March 24, 2017
ODDO Securities	Decot, Martin	January 25, 2018
quirin Privatbank	Marinoni, Ralf	January 25, 2018
Warburg Research	Kleibauer, Thilo	September 18, 2017

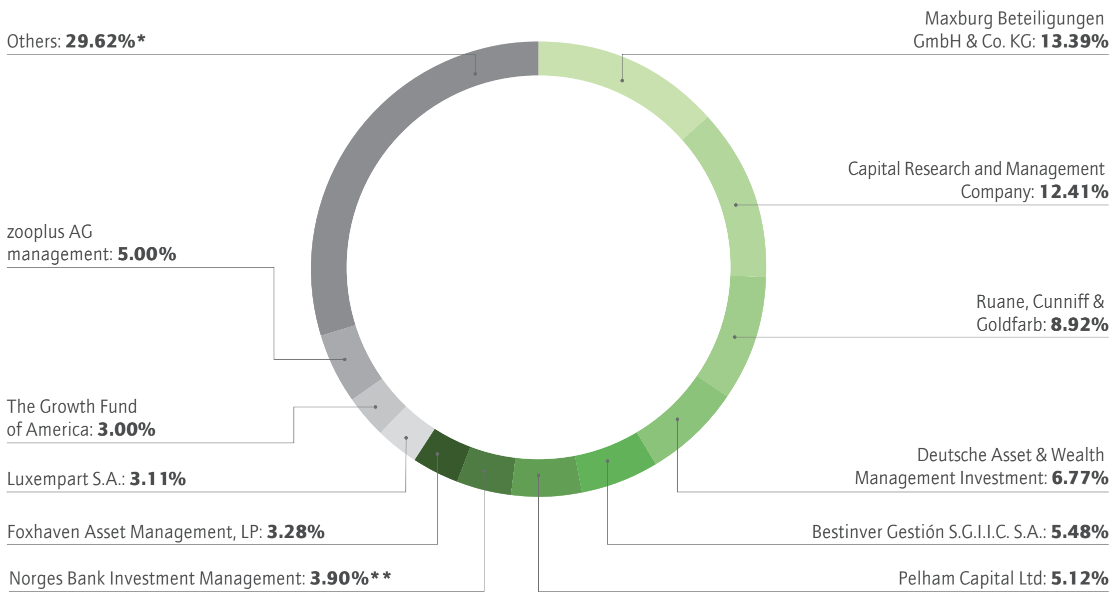
Annual General Meeting

The zooplus AG Annual General Meeting was held May 31, 2017 in Munich and was again widely attended. A total of 69.1 % of the voting capital was represented. The CEO of zooplus AG, Dr. Cornelius Patt, described the company's business performance in 2016, provided an outlook for the 2017 financial year and outlined zooplus AG's development opportunities until 2020. The topics on the agenda included:

- the presentation of the adopted annual financial statements and the approved consolidated financial statements including the management reports, report of the Supervisory Board and the explanatory report of the Management Board
- Appropriation of retained profits for the 2016 financial year
- the resolution on the discharge of the Supervisory Board and Management Board
- the election of the auditor and group auditor for the 2017 financial year
- the elections to the Supervisory Board
- the resolution on the approval of a profit transfer agreement with MATINA GmbH

zooplus AG shareholders adopted all resolutions by a large majority. Mr. Karl-Heinz Holland and Mr. Ulric Jerome, who were judicially appointed as members of the company's Supervisory Board by the District Court of Munich as of December 1, 2016 following the resignation of Dr. Felix Treptow, stood for election to the Supervisory Board at the Annual General Meeting as planned. They were elected by a large majority in a separate election. To ensure that the terms of office for all Supervisory Board members coincide, the Supervisory Board members newly elected by the 2017 Annual General Meeting were also appointed until the conclusion of the Ordinary Annual General Meeting that resolves on the discharge for the 2020 financial year (2021 Ordinary Annual General Meeting).

zooplus shareholders



As of February 28, 2018
Calculation of interests based on total number of voting rights of 7,137,578
Share ownership according to published voting rights notifications

*Free float of 86.61 % 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 and timeliness of this information.

Shareholder structure

There were changes in the shareholder structure of zooplus AG in the 2017 financial year. As a new shareholder, Luxempart S.A., Luxembourg, exceeded the 3 % notification threshold. Pelham Capital Ltd., United Kingdom, increased the number of shares held and exceeded the notification threshold of 5 %. Wasatch Advisors, Inc., USA, fell below the notification threshold of 3 %. The company's high free float of 86.61 % as of February 28, 2018, benefits the share by increasing its liquidity and attracting a broader shareholder base.

2018 financial calendar

April 19, 2018	Preliminary sales figures for Q1 2018
May 17, 2018	Publication of the 2018 3M report
June 13, 2018	2018 Ordinary Annual General Meeting
July 19, 2018	Preliminary sales figures for H1 2018
August 22, 2018	Publication of the 2018 half-year report
October 17, 2018	Preliminary sales figures for Q3 2018
November 14, 2018	Publication of the 2018 9M report

zooplus – a sustainable growth story

Growth continues in 2017

Sales rise 22 % to EUR 1,111 m
Positive earnings before taxes (EBT) of EUR 4.1 m

Attractive market with further growth potential

Gross market volume in Europe of around EUR 26 bn with strong growth in the online segment

Strong sales growth

Driven by an ever-growing loyal customer base across 30 European countries

Cost leadership

Compared to both online and brick-and-mortar competitors

Continued growth focus in 2018

Sales expected to rise between 21 % to 23 % and EBT anticipated in the range of approx. -0.5 % and 0.5 % of sales

Undisputed market leader in online retailing of pet supplies in Europe

Already No. 2 in the total market for online and brick-and-mortar retailing

Integrated logistics infrastructure

Currently eleven logistics centers used for pan-European sourcing and fulfilment

Experienced management team with a clear, focused strategy

Roughly 5 % of the company is held by management; company stock option program offers an added incentive to increase the company's value

Group management report

Group management report of zooplus AG

Financial year 2017

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. zooplus is working to achieve these objectives by continually expanding its infrastructure to enable it to maintain its technological edge in the segment.

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's 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, 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 Coventry, Great Britain; Strasbourg, France; Mühldorf, Germany; Jirikov, Czech Republic; Boleslawiec, Poland and Istanbul, Turkey. This ensures an increasingly denser logistics infrastructure and provides even closer proximity to customers. Expanding this capacity provides zooplus the logistical infrastructure to achieve its planned future growth.

The company's central warehouse locations ensure fast and efficient delivery, as well as a high degree of general product availability for its 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 Deutschland e.V.), the total gross market volume of the European pet supplies segment in 2016 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 in both the European high-volume markets of Germany, France, the Netherlands, Spain, Italy and Poland and across Europe as a whole. The company also believes that, in absolute terms, it is clearly the fastest growing company in its sector.

As of March 2018, zooplus operated a total of 25 localized online shops. In addition to the six high-volume markets mentioned above, the company also operates online shops in the United Kingdom, Belgium, Denmark, Finland, Ireland, Croatia, Austria, Romania, Slovakia, Switzerland, Slovenia, Sweden, the Czech Republic, 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 18 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 – 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 2018. 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"), and the 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 83 % 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

The Internet's development as a distribution channel for pet supplies is critically important to the Group. The availability of fast and reliable Internet access to large segments of the population is a basic prerequisite for European online retailing to consumers. The primary drivers are the availability of high-speed fixed Internet access and growing mobile access. Expanded access has driven the number of Internet users sharply higher in recent years, which in combination with higher Internet usage has prompted a significant increase in the general interest and participation in online shopping. zooplus customers, for example, can access the zooplus websites using their desktop computers, tablets, smartphones or by using the zooplus app.

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 will amount 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. In addition, logistics service providers and parcel services are making a significant effort to make their services more flexible and further improve their quality of service for end customers, which will also provide 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 9 % 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's confidence in its competitive position. Other relative advantages such as brand recognition and the Group's financial strength also play a role.

In addition, the company's existing base of active European customers also helps to provide substantial momentum for acquiring new customers through word-of-mouth recommendations.

Advantages over bricks-and-mortar competitors

zooplus's 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. Instead, from 11 fulfillment centers, it supplies customers throughout Europe with a significantly larger product range than existing bricks-and-mortar retailers. At the same time, the Group's centralized structure and related efficiency advantages combined with predominantly automated business processes help offset certain size-based advantages still enjoyed by the larger bricks-and-mortar pet store chains, particularly in product procurement. zooplus assumes that it is already today's cost leader in the online retailing of pet supplies.

zooplus's 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, 2017, the Group's scope of fully 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

The consolidated financial statements as of December 31, 2017 included the wholly owned subsidiary zooplus Austria GmbH, Vienna, Austria, for the first time. This subsidiary was founded in 2017 and has share capital of kEUR 35. The subsidiary commenced operations in the 2018 financial year.
The following companies are not included in the consolidated financial statements:

- 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

These three companies did not conduct any business activities during the financial year and were not included in the consolidated financial statements because of their minor importance.

zooplus AG was managed by the following Management Board members during the 2017 financial year and as of December 31, 2017:

- Dr. Cornelius Patt, CEO (Corporate Management, overall responsibility for Business Development & System Development, IT, Logistics, Supply Chain Management and Human Resources)
- Andrea Skersies (Sales & Marketing, Category Management)
- Andreas Grandinger (Finance, Controlling, Legal, Investor Relations, Internal Audit and Procurement)

The Management Board is advised and controlled by the Supervisory Board. During the 2017 financial year and as of December 31, 2017, 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 (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

The average number of employees during the financial year was 512 (previous year: 386, excluding the Management Board).

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's aim is to maintain and expand its sales-based market leadership in the European online pet supplies segment and thereby significantly 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 in 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

a. Financial and non-financial performance indicators

i. Financial performance indicators

The yardstick for gauging the Group's growth and business success is sales. The key earnings indicator for measuring the Group's success is earnings before taxes (EBT).

In order to manage and monitor the earnings situation, the zooplus Group mainly focuses on gross margins, fulfillment expenses and marketing expenses.

The performance indicator for the net assets is the equity ratio. The key ratios are calculated at the Group level in accordance with IFRS.

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 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. 2017 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 considerably adverse impact on Europe's real economy. It is also not yet clear what the additional risks and consequences might be from the Brexit vote and its aftermath. In light of these and other risks to the 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 will affect the 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 guidance

zooplus's initial guidance at the beginning of the 2017 financial year was for an increase in sales to at least EUR 1.125 bn and earnings before taxes (EBT) in the range of EUR 17 m to EUR 22 m.

The Management Board anticipated a slight decline in the gross margin as a percentage of sales.

Fulfillment expenses as a ratio of sales were expected at the prior year's level.

As a component of new customer acquisition costs, marketing expenses were expected to maintain at the same ratio to sales during the 2017 financial year.

The equity ratio was projected at a range of 40 % to 60 %.

In terms of market share, the aim was to maintain the company's market leadership in online pet supplies. The sales retention rate was expected at the prior year's level

iii. Actual performance in the 2017 financial year versus guidance

On September 15, 2017, the Management Board resolved on revising its initial forecasted sales target of at least EUR 1,125 m to a level of around EUR 1,125 m and the forecasted earnings before taxes (EBT) target of between EUR 17 m and EUR 22 m to a single-digit million euro amount for the 2017 financial year.

The rationale for this adjustment was the strategic decision to invest even stronger in zooplus AG's sustainable growth and expanding its leading position in a highly competitive market. The additional investment is intended to accelerate growth and further improve the product range in order to strengthen the company's leadership in online retailing.

As a result of this decision, sales increased to EUR 1,111 m in the 2017 financial year, exceeding the EUR 1.1 bn level for the first time as anticipated. The zooplus Group again significantly accelerated growth in the third and fourth quarters of 2017. Sales increased by 22 % in the third quarter and 25 % in the fourth quarter compared to the same period in

2016. The Management Board views the development in the third and fourth quarter as proof that the chosen path of even greater emphasis on sales growth and the focus on sustainable new customers is the right one and that zooplus will benefit in the long term.

EBT reached a level of EUR 4.1 m in the 2017 financial year and was within the scope of the adjusted earnings forecast. The actual earnings performance, which was lower than originally expected resulted from a decline in the gross margin from 25.0 % to 24.4 % and an increase in the cost ratio (consisting of costs for logistics / fulfillment, marketing, payment transactions, other costs, personnel, depreciation and amortization and financial expenses and net of own work capitalized). The cost ratio relative to sales increased to 28.8 % in the 2017 financial year compared to 27.8 % in 2016. The rise in the cost ratio was primarily the result of additional marketing expenses to increase new customer acquisitions, continually ensuring the best product range in the market in terms of price / performance and higher investment in personnel mainly in the areas IT software development and operations. The company also accelerated its expansion of logistics capacity.

Turning to the balance sheet ratios, the equity ratio as of December 31, 2017 was 47 %, which was below the previous year's level of 52 % but still within the planned range of 40 % to 60 %. This decline resulted from an increase in total assets.

The company was able to maintain its leading sales-based market position in European online pet retailing. The sales retention rate increased slightly to 93 % following a level of 92 % in the prior year.

c. Results of operations

i. Sales and income development

zooplus was able to significantly increase sales by 22.2 % year-on-year, from EUR 908.6 m in 2016 to EUR 1,110.6 m in 2017.

In addition to the significant expansion of the customer base in all geographical markets of the Group, combined with double-digit growth rates in all 30 country markets, the main reason for the sales growth was growth in both existing and new customer business. zooplus strengthened its leading market position in the European online retailing of pet supplies in terms of sales and number of customers.

The strong loyalty of existing customers and the high-quality of new customers raised the sales retention rate to a level of 93 % in 2017 and slightly above the prior year's level (2016: 92 %). Both trends underscore the sustainability of the business model.

Other operating income increased from EUR 43.4 m to EUR 52.8 m in the reporting period, reaching an unchanged level of 4.8 % based on sales in both 2017 and 2016. Sales consist solely of the sale of goods. Other operating income contains mainly customary industry refunds for marketing and other compensation.

Sales of pet supplies are largely immune to seasonal fluctuations.

The development of sales and other operating income 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 good basis for further growth.

In contrast to previous years, zooplus focused much more intensively on expanding and improving its proprietary software platform in the 2017 financial year. 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 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 company's cost of materials as a ratio of sales increased only slightly compared to the previous financial year, rising 0.6 percentage points to 75.6 % in 2017 compared to the previous year (75.0 %). The company's gross margin, in contrast, fell from 25.0 % in 2016 to 24.4 % in 2017. The basis for the gross margin's development was the ongoing high level of competition in the pet supplies segment which led to price adjustments in order to continue providing customers with optimal value for money and strengthen the company's market leadership. The investment necessary to expand the company's leading market position and penetrate the whole of Europe also impacted the gross margin.

Personnel expenses

Personnel expenses increased from EUR 29.1 m in 2016 to EUR 39.1 m in 2017. This represents a 0.3 percentage point increase in the personnel expenses ratio to 3.5 % (as a ratio of sales) compared to the previous year. This increase resulted from a significant expansion in internal IT development capacities, added personnel in other departments as well as higher non-cash expenses in connection with the 2016 Stock Option Program.

The average number of employees during the financial year was 512 (previous year: 386, excluding the Management Board). This rise mainly originated from an expansion in proprietary IT development capacity.

Depreciation and amortization

Scheduled depreciation / amortization in the 2017 financial year increased significantly year-on-year to EUR 4.3 m versus EUR 1.6 m in the 2016 reporting period. This rise resulted from the scheduled amortization of modules of the new ERP system that were brought into operation at the start of the 2017 financial year, as well as depreciation of EUR 2.1 m (previous year: EUR 0.5 m) arising from the capitalization of property, plant and equipment resulting from a finance lease.

Other expenses

During the reporting period, other expenses increased year-on-year from EUR 221.5 m to EUR 279.3 m. Other expenses mostly consist of expenses for logistics / fulfillment, marketing and payment transactions. These expenses rose to 25.1 % of Group sales compared to 24.4 % in the prior year. This change was largely due to the measures introduced in the second half of 2017 to expand and optimize the logistics network and higher expenses incurred to accelerate new customer growth.

Logistics and fulfillment expenses

The zooplus business model requires 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 are largely attributable to distribution (e.g., parcel service providers), packaging, as well as variable and fixed expenses for the logistics centers, and are therefore largely variable in relation to the Group's sales. Expenses as a ratio of sales reached a level of 19.8 % compared to 19.4 % in the previous year's period and thus increased slightly.

The higher ratio of logistics and fulfillment expenses resulted from opening new fulfillment centers in Coventry, Great Britain; Mühldorf, Germany; and Boleslawiec, Poland; and from a rise in ramp-up costs related to the start-up phase of the fulfillment center opened in Antwerp, Belgium, in the fourth quarter of 2016. A further contribution came from capacity expansion and optimization undertaken at the existing fulfillment centers in the second half of the year and as a result of the lower values of shopping baskets versus the prior year.

In the context of the capitalization of property, plant and equipment resulting from finance leases, expenses for logistics services in the amount of EUR 2.1 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 2016 comparable period, logistics expenses of EUR 0.5 m were classified as depreciation and EUR 0.05 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. zooplus attaches significant importance to keeping all of the Group's core marketing expertise in-house, although it does occasionally work with third parties to implement these projects.

The increase in marketing expenses to 1.7 % of sales in the 2017 financial year compared to a level of 1.4 % in 2016 reflects the path taken by the Management Board to increase the sustainable acquisition of new customers, thereby, strengthening the Group's market position. The significant acceleration in new customer growth in the third and fourth quarter of 2017 validates these measures. Despite the increase in marketing expenses, the overall very modest marketing expense ratio and the very high level of customer loyalty are further evidence of the company's highly effective marketing approach.

Both the new and existing customer businesses continued to expand with a total of 2.7 m new customers acquired in the year 2017 (previous year: 2.3 m). The sales retention rate in the 2017 financial year remained at a high level of 93 % and was slightly higher than in the prior year.

Payment transaction expenses

Total payment transaction expenses amounted to EUR 11.3 m compared to EUR 9.6 m in the previous year and, at 1.0 % of sales, comprised a slightly lower percentage of sales than in the previous year. zooplus was able to integrate additional regionally accepted payment methods in the 2017 financial year to better meet customer demands.

Other 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 2.6 % compared to 2.5 % in the prior year.

Financial expenses

As of the fourth quarter of 2017, zooplus AG has 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 not utilized in 2017. The fees for the credit line availability are the main source of the company's financial expenses. There were no liabilities to credit institutions at the year's end.

iii. Earnings development

In the 2017 financial year, zooplus generated earnings before taxes (EBT) of EUR 4.1 m versus EUR 17.9 m in the prior year. Earnings came under pressure from additional expenses for the expansion and optimization of logistics activities and additional IT software development capacity to accelerate new customer growth in a market offering tremendous potential. Group earnings were also affected by the continued adverse year-on-year development in the British pound.

The consolidated net profit reached EUR 1.9 m (previous year: EUR 11.4 m). Total comprehensive income of EUR -0.6 m (previous year: EUR 12.5 m) differed from the consolidated net profit due to the hedge reserve of EUR -2.0 m and currency translation differences of EUR -0.5 m.

d. Net assets

Non-current assets at the end of 2017 totaled EUR 28.1 m compared to EUR 25.0 m at the end of 2016. This rise is mainly the result of the capitalization of internally generated intangible assets of EUR 4.0 m related to software developments for the existing system platform.

Within current assets, inventories rose from EUR 78.8 m at the end of 2016 to EUR 104.5 m as of December 31, 2017. 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 26.4 m at the end of 2017 (previous year: EUR 19.2 m). A total of EUR 2.1 m (previous year: EUR 2.6 m) of fully impaired accounts receivable were derecognized in the 2017 financial year.

Compared to their level of EUR 54.9 million in the prior year, cash and cash equivalents decreased slightly by EUR 3.7 m to EUR 51.2 m as of the end of the 2017 financial year. This decrease mainly stemmed from the lower earnings in the 2017 financial year compared to the prior year and the accompanying decline in cash flows.

Equity at the end of 2017 totaled EUR 111.4 m compared to EUR 107.9 m at the end of 2016. This rise mainly resulted from the exercise of stock options as part of a conditional capital increase and the earnings development in the 2017 financial year. This was offset, in particular, by a decline in other reserves. This resulted in an equity ratio as of December 31, 2017 of 47 %, which was within the company's target range.

Accounts payable were higher at the end of 2017 rising to EUR 78.1 m compared to EUR 48.5 m at the end of 2016. Other liabilities increased from EUR 21.4 m to EUR 24.6 m. As of December 31, 2017, liabilities for outstanding invoices were reclassified from other current liabilities to accounts payable. A corresponding adjustment of EUR 1.5 m was made to the prior-year figures for better comparability.

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 2017 financial year, the company used derivative financial instruments in the form of forward exchange transactions for hedging the GBP, PLN and USD. Off-balance-sheet financial instruments were not used.

All accounts payable 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 and deferred income for the 2017 financial year remained close to the previous year's level and concern mainly provisions for issued but not yet redeemed bonus points from the customer loyalty program and provisions for a long-term incentive program for the Management Board. One provision in the amount of EUR 1.2 m is long-term in nature.

Finance lease liabilities totaling EUR 10.9 m are related to future lease payments for leased items at the fulfillment center in Wroclaw, Poland. A total of EUR 8.9 m of these liabilities is long-term in nature.

The Group's total assets amounted to EUR 239.5 m at the end of the reporting period compared to EUR 207.6 m as of December 31, 2016.

e. Financial position

Cash flows from operating activities totaled a positive EUR 3.3 m in 2017 compared to EUR 12.5m in 2016. The operating cash flow was mainly the result of the year-over-year decline in earnings before taxes for the 2017 financial year and the development in working capital.

The cash outflow from investing activities (EUR -7.4 m in 2017 compared to EUR -3.6 m in 2016) 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 0.3 m in 2017 compared to EUR 0.7 m in 2016) included proceeds of EUR 2.9 m from a capital increase from conditional capital. Repayments of finance lease liabilities had a negative impact of EUR -2.2 m on cash flows from financing activities and interest paid had a negative impact of EUR -0.4m.

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. During the past financial year, zooplus was able to meet all 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 not utilized in 2017. The fees for the credit line availability are the main source 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 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.

The interest rate on the credit lines is linked to the Euribor rate and, including the premium over the reference rate, currently lies in the lower single-digit percentage range. A rise in current interest rates would naturally cause an increase in the Group's financing costs, which, from the current standpoint, are considered entirely manageable. The Group's management does not expect any significant change in the credit conditions.

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 2018 financial year.

f. Overall statement on the financial situation

In light of sales growth of 22 % to EUR 1,111 m in a competitive market environment and an acceleration in growth in the third and fourth quarters of 2017, the company's performance in the 2017 financial year can be considered good in terms of zooplus's future long-term development. The development of earnings in the 2017 financial year is confirmation that zooplus's strategy of placing the expansion of its excellent market position and the exploitation of the market's tremendous potential at the forefront of its activities is the right one. In addition, it is important to highlight that the company has been able to finance this consistently high level of growth through its operating cash flow.

2. Subsequent events

After the end of the 2017 financial year, there were no events of particular importance that impacted the results of operations, financial position and net assets.

3. Report on outlook, risks and opportunities

A. Outlook

Based on the latest forecasts, the underlying economic conditions are not expected to change materially in 2018. It remains to be seen what impact the Brexit decision will have on the EU member states and companies operating across Europe. Furthermore, it is currently impossible to foresee the effect of protectionist tendencies on international trade in goods and therefore on overall economic growth and the purchasing power of consumers.

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 2018.

In the 2018 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

In summary, the Group expects to achieve the following financial targets in the 2018 financial year:

- Year-over-year sales growth of 21 % to 23 %
- EBT margin in the range of +0.5 % to -0.5 % based on sales

Excluding the effects from changes in accounting and valuation regulations resulting from the introduction of new IFRS provisions, 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 2018 financial year at the prior year's level
- logistics and fulfillment expenses as a percentage of sales in 2018 at the prior year's level
- marketing expenses related to customer acquisitions to remain stable or increase slightly in 2018 as a percentage of sales
- an equity ratio before concluding new finance leases in the range of 35 % to 55 %
- 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 sales retention rate
- a moderate year-on-year increase in new customers

Growth will continue to be the priority in 2018. Our focus will be on building future sustainable 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's 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 aim of the system is 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 to determine 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 almost certain	90 %

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

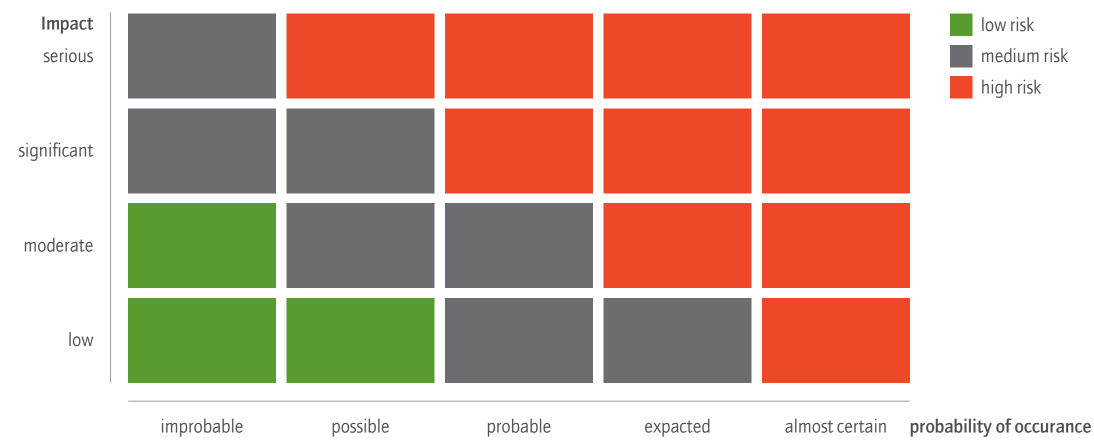
Low: No tangible effect on the net profit / loss for the period and / or the company's value.

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, 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's 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's 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 increasingly 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 mid-single-digit million euro figure and are classified as medium.

Long-term agreements for the fulfillment centers have been concluded with three 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's 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 medium.

The loss of key employees could jeopardize the company's long-term succes:
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 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 fulfillment center in Great Britain in the 2017 financial year, which means that some of the customer orders are already delivered directly within the country. In addition, zooplus believes the risk of Great Britain exiting Europe's single market completely is low. If contrary to expectations, Great Britain does exit the single market, then zooplus expects there to be a medium-term transition period. We estimate the Brexit risk in terms of customs restrictions as low and amounting to a low single-digit million euro amount. Currency risks remain unaffected.

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 within the following twelve months (consisting mainly of export sales and inventory purchases). As of the December 31, 2017 reporting date, forward exchange transactions were entered into solely for the USD for purchasing inventories. The expected purchases that will be settled using hedging instruments correspond to the hedge accounting criteria of a "highly probable" forecast transaction. The assessed risk amounts to a low 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. Accounts receivable may lead to sustained risks for the zooplus business model. 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, 2017 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. 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's 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 linked to the trend toward "humanizing" pets. This trend is being enhanced, among others, by the long-discernable trend in the growth of single households.

iii. Development of the e-commerce market

The trend towards 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.

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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. 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 continued existence.

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

The key features of zooplus's 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 (four-eye 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 accounting.

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 one-year and multi-year incentive and other compensation. Variable one-year annual compensation was completely eliminated with the extension of the Management Board contracts in 2016. The last payment based on these components took place in 2017.

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 one-year performance-based remuneration

The variable one-year remuneration component rewards the Management Board's performance according to the company's development over the preceding financial year and is linked to the sales, earnings and personal targets in the corresponding area of responsibility achieved in the financial year. The variable remuneration component has been eliminated completely as of the end of the third quarter of 2016 with the extension of the Management Board contracts for all members. The remuneration based on the targets reached in the 2016 financial year was paid out in the 2017 financial year.

c) 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 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.

d) Fringe benefits

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

e) 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 fringe benefits and resulting from stock options that vested prematurely or, if applicable, claims under a cash bonus plan, may not exceed the value of two years of total remuneration (severance pay limit). Should there be no granting of stock options until September 1, 2018, Management Board members will be granted an entitlement to the cash bonus plan effective as of September 1, 2018. This entitlement shall be economically equivalent to a hypothetical grant of further stock options and, therefore, requires comparable share price performance (corresponding to a synthetic grant of stock options under the terms of the 2016 Stock Option Program).

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 and any claims to be granted under a cash bonus plan.

f) 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

In full-year 2017, a total of kEUR 1,126 (previous year: kEUR 3,791) in total remuneration was payable to the Management Board. Of this amount, kEUR 1,045 was attributable to fixed annual remuneration and kEUR 81 to other remuneration. The 2017 financial year is the first year that the company is disclosing individual remuneration figures. Until the completion of the 2016 financial year, the company was exempt from disclosing the individual remuneration of the Management Board by resolution of the Annual General Meeting on May 22, 2012. For these reasons, the disclosure of the comparative individual remuneration figures from the prior year was waived.

The following remuneration was payable to the active members of the Management Board in 2017:

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

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 Stock Option Program 2016 for issuing stock options with subscription rights to shares of zooplus AG to members of the company's Management Board. Under the Stock Option Program 2016, 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 Options 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 Options 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. The exercice price of the shares outstanding as of December 31, 2017 is EUR 124.45 per share. The weighted average remaining term of the stock options outstanding as of December 31, 2017 under the contract is 2.75 years. Personnel expenses recognized in the reporting year from the 2016 Stock Options Program amounted to kEUR 310 for Dr. Patt, kEUR 124 for Ms. Skersies and kEUR 186 for Mr. Grandinger.

Subject to the conditions of a corresponding resolution by the Annual General Meeting 2018 regarding the authorization of the Supervisory Board to grant further stock options, create corresponding conditional capital and enter the conditional capital in company's commercial register, the Management Board in accordance with contractual stipulations shall receive up to a further 93,750 stock options with the right to subscribe to one no-par-value bearer share of zooplus AG with a notional interest in the share capital of EUR 1.00 per share by September 1, 2018 at the latest under a yet to be launched 2018 Stock Option Program. The terms of a 2018 Stock Option Program will be based, in principle, on the provisions of the 2016 Stock Option Program. The other 2018 stock options will only be issued if their fair value at the time of their issue does not exceed 150 % of the total fair value of the stock options granted to members of the Management Board in 2016.

Should the criteria for granting further stock options to the members of the Management Board (a resolution of the Annual General Meeting, entry of conditional capital in the commercial register) not be met by September 1, 2018, the Supervisory and Management Boards will establish a cash bonus plan in which the respective Management Board members' expected payout is economically comparable to a hypothetical grant of further stock options requiring a comparable development in the share price (corresponding to a synthetic grant of stock options under the terms of the 2016 Stock Option Program). Under the 2018 Stock Option Program, Dr. Patt is going to receive 50,000 stock options, Ms. Skersies 13,750 stock options and Mr. Grandinger 30,000 stock options. The expense recognized for the Stock Option Program 2018 in the reporting period was kEUR 164 for Dr. Patt, kEUR 41 for Ms. Skersies and kEUR 98 for Mr. Grandinger.

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 the corporate planning. As of December 31, 2017, Dr. Patt had a total of 5,647 subscription rights under this program with a fair value of kEUR 998, Ms. Andrea Skersies had a total of 3,447 subscription rights with a fair value of kEUR 610 and Mr. Grandinger had a total of 2,872 subscription rights with a fair value of kEUR 508. The expense relating to the share-based payment with cash settlement recognized in the reporting period was kEUR 287 for Dr. Patt, kEUR 211 for Ms. Skersies and kEUR 162 for Mr. Grandinger.

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, fringe benefits and other 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. There were no benefits granted in the 2017 financial year based on the variable one-year performance-based compensation component.

Benefits received for the reporting year include the actual fixed compensation paid in the reporting year. In the case of variable performance-related one-year compensation components, this relates to the payment of the annual bonuses as well as profit-sharing for the 2016 financial 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

	Dr. Cornelius Patt CEO			Andrea Skersies Management Board member			Andreas Grandinger Management Board member		
Benefits granted kEUR	2017	2017 (Min)	2017 (Max)	2017	2017 (Min)	2017 (Max)	2017	2017 (Min)	2017 (Max)
Fixed remuneration	450	450	450	295	295	295	300	300	300
Fringe benefits	23	23	23	23	23	23	35	35	35
Total	**473**	**473**	**473**	**318**	**318**	**318**	**335**	**335**	**335**
Total remuneration	**473**	**473**	**473**	**318**	**318**	**318**	**335**	**335**	**335**

Benefits paid

Benefits paid kEUR	Dr. Cornelius Patt CEO 2017	Andrea Skersies Management Board member 2017	Andreas Grandinger Management Board member 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 2017 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 chairs of committees receive 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**

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

Composition of subscribed capital
As of December 31, 2017, subscribed capital totaled EUR 7,137,578.00 and consisted of 7,137,578 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, 2017, the following shareholders held more than 10 % of the voting rights:

- Maxburg Beteiligungen GmbH & Co. KG, Grünwald, Germany
  The voting rights of Maxburg Beteiligungen GmbH & Co. KG are to be attributed to RAG-Stiftung, Essen, Germany pursuant to Section 34 (1) sentence 1 no. 5 WpHG in conjunction with Section 34 (1) sentence 2 WpHG.
- The Capital Group Companies, Inc., Los Angeles, USA / Capital Research and Management Company, Los Angeles, USA
  The voting rights are to be attributed to The Capital Group Companies, Inc., Los Angeles, USA pursuant to Section 34 (1) sentence 1 no. 6 WpHG in conjunction with Section 34 (1) sentences 2 and 3 WpHG.
  The voting rights are to be attributed to Capital Research and Management Company pursuant to Section 34 (1) sentence 1 no. 6 WpHG.

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. According to Section 5 (5) of the Articles of Association, the company's share capital has been conditionally increased by EUR 36,100.00 through the issue of up to 36,100 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 profits at the time when the subscription right is exercised.

b. According to Section 5 (7) of the Articles of Association, the company's share capital has been conditionally increased by a further EUR 60,000.00 through the issue of up to 60,000 no-par value bearer shares (Conditional Capital 2010 ⁄ I). Conditional Capital 2010 ⁄ I serves to secure subscription rights from stock options issued by zooplus AG under the authorization of the Annual General Meeting of May 27, 2010 under Agenda Item 5 lit. I) as part of the Stock Option Program 2010 ⁄ I in the period from the date of the registration of Conditional Capital 2010 ⁄ I until Wednesday, December 31, 2014. 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 2010⁄I will be carried out at the exercise price defined in Item I. (5). 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 Stock Option Program 2016 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.

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 HGB can be found on the company's website http://investors.zooplus.com under corporate governance in the investor relations section.

8. 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 positive business performance in 2018.

The Management Board

Dr. Cornelius Patt   Andrea Skersies   Andreas Grandinger

Munich, March 15, 2018

Consolidated financial statements

Consolidated balance sheet as of December 31, 2017 according to IFRS

Assets

in EUR		Note no.	12/31/2017	12/31/2016
A.	NON-CURRENT ASSETS			
I.	Property, plant and equipment	5	14,953,996.71	15,908,695.76
II.	Intangible assets	6	13,068,635.16	9,026,342.57
III.	Other financial assets	7	37,708.71	37,708.71
	Non-current assets, total		**28,060,340.58**	**24,972,747.04**
B.	CURRENT ASSETS			
I.	Inventories	9	104,542,066.62	78,781,088.50
II.	Advance payments	10	628,240.48	1,622,257.78
III.	Accounts receivable	11	26,387,959.32	19,177,730.94
IV.	Other current assets	12	27,474,816.50	25,642,573.18
V.	Tax receivables	8	1,169,804.50	0.00
VI.	Derivative financial instruments	13	0.00	2,455,023.80
VII.	Cash and cash equivalents	14	51,191,242.91	54,923,661.37
	Current assets, total		**211,394,130.33**	**182,602,335.57**
			239,454,470.91	**207,575,082.61**

Equity and liabilities

in EUR		Note no.	12/31/2017	12/31/2016
A.	EQUITY			
I.	Subscribed capital	15	7,137,578.00	7,060,902.00
II.	Capital reserves	15, 16	98,831,984.63	94,810,944.46
III.	Other reserves	15, 13	– 1,379,456.36	1,147,161.06
IV.	Profit/loss for the period and profit carried forward	15	6,789,493.63	4,851,179.83
	Equity, total		**111,379,599.90**	**107,870,187.35**
B.	NON-CURRENT LIABILITIES			
I.	Provisions	16, 20	1,190,060.16	1,503,549.71
II.	Deferred tax liabilities	8	1,010,240.95	689,068.25
III.	Finance lease liabilities	29	8,869,681.49	10,948,431.91
	Non-current liabilities, total		**11,069,982.60**	**13,141,049.87**
C.	CURRENT LIABILITIES			
I.	Accounts payable	17	78,132,936.61	48,483,292.59
II.	Derivative financial instruments	13	509,085.60	0.00
III.	Other current liabilities	19	24,564,100.54	21,365,938.57
IV.	Tax liabilities	8	1,344,271.91	4,086,935.55
V.	Finance lease liabilities	29	2,078,750.41	2,151,426.24
VI.	Provisions	20	7,447,738.92	8,051,104.12
VII.	Deferred income	21	2,928,004.42	2,425,148.32
	Current liabilities, total		**117,004,888.41**	**86,563,845.39**
			239,454,470.91	**207,575,082.61**

Consolidated statement of comprehensive income from January 1 to December 31, 2017 according to IFRS

in EUR	Note no.	2017	2016
Sales	22	1,110,632,561.02	908,609,838.48
Other income	23	52,757,525.11	43,355,486.31
Own work capitalized	24	3,468,915.18	0.00
Cost of materials		– 839,629,129.66	– 681,631,589.07
Personnel expenses	25	– 39,136,528.32	– 29,111,482.67
of which cash		(– 37,890,957.15)	(– 28,470,070.87)
of which stock-based and non-cash	16	(– 1,245,571.17)	(– 641,411.80)
Depreciation and amortization	5, 6	– 4,321,913.92	– 1,616,967.85
Other expenses	26	– 279,323,170.85	– 221,526,202.03
of which logistics ⁄ fulfillment expenses		(– 219,942,730.59)	(– 175,988,814.15)
of which marketing expenses		(– 19,267,185.68)	(– 12,823,168.20)
of which payment transaction expenses		(– 11,335,774.29)	(– 9,583,571.71)
of which other expenses		(– 28,777,480.29)	(– 23,130,647.96)
Earnings before interest and taxes		**4,448,258.56**	**18,079,083.18**
Financial income	27	20,903.53	1,311.52
Financial expenses	27, 29	– 417,577.52	– 213,441.12
Earnings before taxes		**4,051,584.56**	**17,866,953.58**
Taxes on income	8	– 2,113,270.76	– 6,471,885.52
Consolidated net profit		**1,938,313.80**	**11,395,068.06**
Other gains and losses (after taxes)			
Differences from currency translation	15	– 539,923.10	– 448,820.11
Hedge reserve	15, 13	– 1,986,694.32	1,590,112.40
Items subsequently reclassified to profit or loss		**– 2,526,617.42**	**1,141,292.29**
Total comprehensive income		**– 588,303.62**	**12,536,360.35**
Earnings per share			
Basic	28	0.27	1.63
Diluted	28	0.27	1.60

Consolidated statement of cash flows from January 1 to December 31, 2017 according to IFRS

in EUR	Note no.	2017	2016
Cash flows from operating activities			
Earnings before taxes		4,051,584.56	17,866,953.58
Adjustments for:			
Depreciation and amortization	5, 6	4,321,913.92	1,616,967.85
Non-cash personnel expenses	16	1,245,571.17	641,411.80
Other non-cash business transactions	6	– 539,923.10	– 448,820.11
Interest and similar expenses	27	417,577.52	213,441.12
Interest and similar income	27	– 20,903.53	– 1,311.52
Changes in:			
Inventories		– 25,760,978.12	– 4,273,395.32
Advance payments	9	994,017.30	– 173,085.80
Accounts receivable	11	– 7,210,228.38	– 5,556,242.49
Other current assets	12	– 1,832,243.32	– 7,387,130.43
Accounts payable	17	29,649,644.02	13,720,696.08
Other liabilities	19	3,198,161.97	– 2,004,252.47
Provisions	8, 20	– 603,365.20	– 334,749.81
Non-current liabilities	20	– 313,489.55	– 276,682.61
Deferred income	21	502,856.10	380,988.92
Income taxes paid		– 4,824,194.19	– 1,442,429.45
Interest received	16	20,903.53	1,311.52
Cash flows from operating activities		**3,296,904.71**	**12,543,670.86**
Cash flows from investing activities			
Payments for property, plant and equipment / intangible assets	5, 6	– 7,438,411.59	– 3,620,940.04
Cash flows from investing activities		**– 7,438,411.59**	**– 3,620,940.04**
Cash flows from financing activities			
Proceeds from capital increase	15	2,852,145.00	1,465,940.00
Payments for the redemption of finance lease liabilities	29	– 2,151,426.25	– 503,677.76
Interest paid	27	– 417,577.52	– 213,441.12
Cash flows from financing activities		**283,141.23**	**748,821.12**

(Continued on next page)

in EUR	Note no.	2017	2016
Currency effects on cash and cash equivalents		125,947.20	– 278,679.32
Net change of cash and cash equivalents		**– 3,732,418.46**	**9,392,872.62**
Cash and cash equivalents at the beginning of the period	14	54,923,661.37	45,530,788.75
Cash and cash equivalents at the end of the period		51,191,242.91	54,923,661.37
Composition of cash and cash equivalents at the end of the period			
Cash on hand, bank deposits		51,191,242.91	54,923,661.37
		51,191,242.91	**54,923,661.37**

Consolidated statement of changes in equity as of December 31, 2017 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, 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**
As of January 1, 2016	**6,995,182.00**	**92,769,312.66**	**5,868.77**	**– 6,543,888.23**	**93,226,475.20**
Increase from stock options	65,720.00	2,041,631.80	0.00	0.00	2,107,351.80
Currency translation differences	0.00	0.00	– 448,820.11	0.00	– 448,820.11
Net profit for 2016	0.00	0.00	0.00	11,395,068.06	11,395,068.06
Hedge reserve	0.00	0.00	1,590,112.40	0.00	1,590,112.40
As of December 31, 2016	**7,060,902.00**	**94,810,944.46**	**1,147,161.06**	**4,851,179.83**	**107,870,187.35**

Notes

Notes to the consolidated financial statements

as of December 31, 2017, 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, 2017 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 15, 2018, 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 2017 financial year have been prepared in accordance with these IFRSs and interpretations of the IFRSIC. 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 German Federal Gazette (Bundesanzeiger).

The consolidated financial statements have been prepared on a historical cost basis, except in the case of 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 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:

Standard/ interpretation	Title	Mandatory application	Adopted by the EU	Main effect on zooplus
IAS 7	Amendments to IAS 7 Statement of Cash Flows - Disclosure Initiative	January 1, 2017	Yes	Implemented; see information provided in Note 29
IAS 12	Amendments to IAS 12 Income Taxes - Recognition of Deferred Tax Assets for Unrealised Losses	January 1, 2017	Yes	No effect
IFRS 12	Annual Improvements to IFRSs (2014 - 2016 cycle) – Amendments to IFRS 12 Disclosure of Interests in Other Entities	January 1, 2017	Yes	No effect

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, 2017:

Standard/ interpretation	Title	Mandatory application	Adopted by the EU	Main effect on zooplus
IFRS 15	Clarification of IFRS 15 "Revenue from Contracts with Customers"	January 1, 2018	No	No effect
IFRS 15	Clarification of IFRS 15 "Revenue from Contracts with Customers"; date of first-time application	January 1, 2018	Yes	See information provided below this table
IFRS 9	Financial Instruments	January 1, 2018	Yes	See information provided below this table
IFRS 9	Amendments to IFRS 9 - Prepayment Features with Negative Compensation	January 1, 2019	No	No effect
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
IFRS 16	Leases	January 1, 2019	Yes	See information provided below this table
IAS 40	Amendments to an IAS 40 – Supplement to the Transfers of Investment Property	January 1, 2018	No	No effect
IFRS 2	Amendments to IFRS 2 Share-based Payment - Classification and Measurement of Share-based Payment Transactions	January 1, 2018	No	No effect
IFRIC 22	Foreign Currency Transactions and Advance Consideration	January 1, 2018	No	No effect
IFRS 10 & IAS 28	Amendments to IFRS 10 & IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Postponed to a date still to be determined	No	No effect
Diverse IFRSs	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	No	No effect
	Annual Improvements to IFRSs (2015 - 2017 cycle)	January 1, 2019	No	No effect
IFRIC 23	Uncertainty over Income Tax Treatments	January 1, 2019	No	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	No	No effect

The final version of IFRS 9 (2014) replaces IAS 39 Financial Instruments: Recognition and Measurement and all other previously published provisions. 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 will apply the new standard for the first time in the 2018 financial year. The first-time application of the amendments by zooplus will result in changes in the measurement of accounts receivable and other assets.

An investment previously recognized as an asset available-for-sale and measured at acquisition cost will be classified in the future as a financial asset measured at fair value through profit or loss. The impact on investments previously recognized as available-for-sale is immaterial. Under the new impairment model, the Group expects impairment losses to range between 0.2 % and 0.3 % of Group sales. The provisions for hedge accounting are not expected to have a significant impact on the Group's net assets, financial position or results of operations. The existing hedges can be continued and will not result in any transition effects.

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. The first-time application of the standard requires changes to the Group's accounting policies and will have an effect on the presentation of the circumstances described below.

IFRS 15 requires the separate recording of contractual assets and contractual liabilities on the balance sheet. As of January 1, 2018, this regulation will result 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 are currently included in other balance sheet items. The following issues were identified that will result in reclassifications and recognition and reporting changes as of January 1, 2018:

1. 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 contractual liabilities

2. Deferred income of EUR 2.9 m will be recorded separately as contractual liabilities

3. 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 contractual liabilities

4. Provisions for customer returns of EUR 0.8 m that were previously accounted for as other provisions will be reclassified as contractual liabilities

5. 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 contractual liabilities

We expect income from marketing services in the form of marketing refunds, which totaled EUR 45.0 m in the 2017 financial year, previously accounted for as other income, to be reclassified going forward as cost of materials. If applicable, contractual receivables originating from these receivables will be recognized separately.

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 with a term of more than 12 months. The Group is currently analyzing the effects and has concluded that the leases that need to be accounted for in the future mainly relate to building and office rentals, IT leasing and car leasing. In the future these will be recognized in the balance sheet as fixed assets. zooplus is currently assessing the effects of the application of IFRS 16 on the consolidated financial statements and will apply the new standard under the modified retrospective approach for the first time to the 2019 financial year. As of the reporting date, the zooplus Group had noncancellable lease obligations of EUR 43 m. Earnings before interest and taxes will change to the effect that interest included in the leasing installments will be reported as an interest expense in the future.

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 %	1,171	Service company for Great Britain
zooplus italia s.r.l., Genoa, Italy	100 %	263	Service company for Italy
zooplus polska sp. z.o.o., Krakow, Poland	100 %	330	Service company for Poland
zooplus services ESP S.L., Madrid, Spain	100 %	230	Service company for Spain
zooplus Pet Supplies Import and Trade ltd., Istanbul, Turkey	100 %	2,911	Sales company for Turkey
zooplus france s.a.r.l., Strasbourg, France	100 %	333	Service company for France
zooplus Nederland B.V. Tilburg, the Netherlands	100 %	56	Service company for the Netherlands
zooplus Austria GmbH, Vienna, Austria	100 %	40	Service company for Austria

The consolidated financial statements as of December 31, 2017 included the wholly owned subsidiary zooplus Austria GmbH, Vienna, Austria, for the first time. This subsidiary was founded in 2017 and has share capital of kEUR 35. The subsidiary commenced operations in the 2017 financial year.

The following companies are not included in the consolidated financial statements:

- 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.

These three companies did not conduct any business activities during the financial year and were not included in the consolidated financial statements because of their minor importance.

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 2017 financial year under Section 264 (3) HGB.

2.3 Consolidation methods

Subsidiaries are all entities whose financial and business decisions can be influenced 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 2017 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 22. 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 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 2017 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. 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.

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 license

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 individual software, over which the Group has 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 and ability to use the software.
- The company has the ability to utilize or sell 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 assets

2.9.1 Classification

Financial assets are divided into the following categories: (a) financial assets measured at fair value through profit or loss, (b) loans and receivables, and (c) financial assets available-for-sale. The classification depends on the respective purpose for which the financial asset was purchased. The management determines the classification of the financial asset upon initial recognition.

2.9.1.1 Assets measured at fair value through profit or loss

Assets measured at fair value through profit or loss are financial assets held for trading purposes. A financial asset is allocated to this category when it was primarily purchased for the purpose of selling it in the near term. Derivatives are also allocated to this category unless they qualify as hedges. Assets in this category are reported as current assets if the realization of the asset is expected within twelve months. All other assets are classified as non-current. In the financial years 2016 and 2017, there were no financial assets in this category.

2.9.1.2 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or ascertainable payments that are not traded in an active market. They are classified as current assets when their maturity is no longer than twelve months after the balance sheet date. If their maturity is longer than twelve months after the balance sheet date, they are recognized as non-current assets. The Group's loans and receivables are recorded in the balance sheet under "Accounts receivable" and "other current assets" (Note 2.14).

2.9.1.3 Financial assets available-for-sale

Financial assets available-for-sale are non-derivative financial assets either allocated to this category or no other category presented. Financial assets available-for-sale are allocated to non-current assets when management does not intend to sell them within twelve months after the balance sheet date and the asset does not mature within this period. In the financial years 2016 and 2017, other non-current financial assets were allocated to this category.

2.9.2 Recognition and measurement

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 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 are derecognized when the rights to payments from the financial assets have expired or have been transferred, and the Group has transferred principally all risks and opportunities related to the ownership. Financial assets available-for-sale and assets under the category "Measured at fair value through profit or loss" are subsequently measured at their fair value. Loans and receivables are carried at amortized cost by applying the effective interest method.

Gains and losses from financial assets "Measured at fair value through profit or loss" are recognized in profit or loss in the period they occurred. Dividend income from financial assets "Measured at fair value through profit or loss" is recognized in profit or loss when the Group's legal right to receive dividends is established.

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 Impairment of financial instruments

2.11.1 Assets measured at amortized cost

At each balance sheet date, the company assesses whether there is objective evidence showing the impairment of a financial asset or a group of financial assets. A financial asset or a group of financial assets is impaired only when the occurrence of one or more events after the asset's initial recognition ("loss event") gives an objective indication of an impairment and that this loss event (or loss events) has a reasonably estimable effect on the expected future cash flows of the financial asset or the group of financial assets.

Objective indications of an impairment could be the following: Indications of financial difficulties of a customer or group of customers, the non-adherence or non-payment of interest or principal; the probability of declaring insolvency or being subject to an alternative type of financial restructuring; and identifiable facts that indicate a measurable reduction in estimated future capital flows, such as unfavorable changes in the payment situation of the borrower or the economic situation that would indicate a delay in performance.

In the category "Loans and receivables," the amount of the impairment loss is calculated as the difference between the asset's carrying amount and the present value of the expected future cash flows (except future, pending credit defaults) discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced, and the impairment loss is recognized in profit or loss. If a loan or a receivable has a variable interest rate, the discount rate used for measuring the impairment loss corresponds with the current effective interest rate determined in the contract. The Group measures the impairment of a financial asset recognized at amortized cost based on the financial instrument's fair value using an observable market price.

If the amount of the impairment decreases in a subsequent period and this reduction results from circumstances that have occurred after the impairment's initial recognition (for example due to a better rating), the reversal is recognized in profit or loss.

2.11.2 Assets classified as available-for-sale

At each balance sheet date, the company assesses whether there is objective evidence showing the impairment of a financial asset or a group of financial assets. In the case of debt instruments, the criteria listed under Item 2.11.1 are used to make this assessment. In the case of equity instruments classified as financial assets available-for-sale, a substantial or persistent decline in the fair value to a level below the acquisition cost of these equity instruments is seen as an indicator that the equity instruments are impaired. If an indication of this type exists for available-for-sale assets, the accumulated loss measured as the difference between the acquisition costs and the current fair value less impairment losses previously recognized for the financial asset in question is derecognized from equity and recognized in the statement of comprehensive income. Impairment losses on equity instruments once recognized in the statement of comprehensive income are not reversed in profit or loss. If the fair value of a debt instrument classified as an available-for-sale financial asset increases in a subsequent period and this increase results from circumstances occurring after the initial recognition of the impairment, the impairment is reversed in profit or loss

2.12 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 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 and thereafter, assessments are recorded to determine whether the derivatives used in the hedging relationship effectively enough 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 liability if the remaining term is shorter. Derivative financial instruments held for trading purposes are reported as current assets or liabilities.

Cash flow hedges
The effective portion of changes to the fair value of derivatives whose cash flow should be hedged and that qualify as a cash flow hedges is recognized in other comprehensive income. The ineffective portion of such changes in value, however, is recognized directly in the statement of comprehensive income under "Other gains / losses."

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 (e.g., the point in time the hedged future sale occurs). However, if a hedged future transaction results in the recognition of a non-financial asset (e.g., inventories or property, plant and equipment) 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 and, in the case of property, property, plant and equipment, in depreciation / amortization.

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.

2.13 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.

2.14 Accounts receivable

Accounts receivable are amounts due 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 receivable are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method less any impairment. An impairment of accounts receivable is recognized when there are objective indications that the amounts receivable due cannot be collected in full (e.g., due to payment delays, customer insolvency). Impairments of accounts receivable are recognized through a separate allowance account. These impairments are derecognized at the same time as the corresponding impaired receivable.

The carrying amounts of the accounts receivable generally correspond with their market values including any impairment due to their short-term nature.

2.15 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 2016 and 2017.

2.16 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. Group companies did not hold treasury shares during the financial year.

2.17 Accounts payable and other liabilities

Financial liabilities are divided into the following categories:

Financial liabilities measured at fair value through profit or loss:
Liabilities measured at fair value through profit or loss are financial liabilities held for trading purposes. A financial liability is allocated to this category when it was incurred primarily with the intent of being settled in the short term. Derivatives are also classified under this category unless they qualify as hedges. Liabilities in this category are reported as other current liabilities if the liability's settlement is expected within twelve months. All other liabilities are classified as non-current. In the financial years 2016 and 2017, there were no financial liabilities allocated to this category.

Financial liabilities measured at amortized cost (FLAC), including accounts payable and other liabilities:
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. As of the end of 2017, liabilities for outstanding invoices were reclassified from other current liabilities to accounts payable. For better comparability, the previous year's presentation was adjusted accordingly by EUR 1.5 m.

"Derivatives designated as hedging instruments and effective as such" are not assigned to a category in accordance with IAS 39.

2.18 Current and deferred taxes

The period's tax expenses consist of both current and deferred taxes. 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 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 assets' or liabilities' tax base and their carrying amounts in the IFRS consolidated financial statements, and for losses carried forward (the "liability method"). However, deferred taxes are not recognized – neither at 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 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.

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.

2.19 Employee benefits

2.19.1 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.

2.19.2 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.

2.19.3 Share-based remuneration

Some of Group's employees and 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. The amount recognized in the statement of comprehensive income as income or an expense reflects the development of the accumulated expenses at the beginning and end of the reporting period.

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.

2.20 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.

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 of the expected expenses based on a pre-tax interest rate 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.

2.21 Sales recognition

Sales are measured at the fair value of the remuneration received or receivable. Sales are recognized when it is sufficiently probable that the economic benefit will flow to the Group and the amount of the sales can be reliably determined. Income is measured at the fair value of the consideration less discounts and rebates granted, as well as value added tax or other taxes.

When goods are sold, sales are recognized when delivery has taken place, and the opportunities and risks have been transferred to the purchaser. Sales from the sale of goods are recognized at their net value, i.e., after deducting VAT, returns, early payments, customer discounts and rebates. Sale transactions usually include the right for the purchaser to return the goods within 14 days. Goods returned by customers are deducted from sales.

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. The consideration received is split among the products sold and the bonus points awarded, whereby the consideration is allocated to its fair value according to the bonus points. The fair value of the bonus points is determined based on the sales price of the products offered as rewards. The fair value of the awarded bonus points is deferred and recognized as sales only when the bonus points have been redeemed.

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 over the validity period of the individual discount plans.

In the case of services, sales and other income are recognized at the point in time the service was provided. Services mainly concern marketing refunds and supplying advertising space.

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.

2.22 Interest income

Interest income is recognized at the time of its accrual and reported in the statement of comprehensive income under financial income.

2.23 Leases

Leases, where a significant portion of the opportunities and risks associated with ownership of the leased object remain with the lessor, 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.

Leasing contracts for property, plant and equipment in which the Group as a lessee carries the 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 financial year (see Items 5 and 29).

2.24 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.

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. Management has put a guideline in place stipulating how currency risk should be managed in relation to the functional currency. The Group hedges foreign currency risk from expected future transactions and 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 assets or liabilities are recognized in a different currency than the company's functional currency. 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.

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, 2017	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	0.88723	328	– 401	0	0
DKK	7.4449	21	– 26	0	0
TRY	4.5464	18	– 22	0	0
RON	4.6585	10	– 13	0	0
CZK	25.535	9	– 11	0	0
NOK	9.8403	7	– 9	0	0
PLN	4.177	– 109	133	0	0
CHF	1.1702	– 68	83	0	0
USD	1.1993	– 35	43	– 1,810	2,212

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 and other receivables. There is no credit concentration risk.

Credit limits are set for all customers based on internal risk classification characteristics. Outstanding customer receivables are monitored regularly. To reduce credit risk, impairments are made based on past experience in accordance with maturity ranges. Receivables are impaired when a debt collection agency has been unable 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.

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

3.1.3 Liquidity risk

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 lines of credit of EUR 50 m available at three independently operating banks. The Group, therefore, does not currently have 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 cash flows.

in kEUR	Up to 3 months	3 months up to 1 year	More than 1 year
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
As of December 31, 2016			
Finance lease liabilities	517	1,635	10,948
Accounts payable	48,483	0	0
Other liabilities (financial instruments pursuant to IFRS 7)	4,474	0	0
Derivative financial instruments (gross settlement)			
Cash outflow	0	0	0
Cash inflow	0	0	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 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, and 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 2017 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 52 % in the 2016 financial year. The Group had expected this ratio in the range of 40 % to 60 % in 2017 and as of December 31, 2017 reported an equity ratio of 47 %.

in kEUR	2017	2016
Equity	111,380	107,870
Total equity and liabilities	239,454	207,575
Equity ratio in %	**47 %**	**52 %**

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 their 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

The following table shows the assets and liabilities measured at their fair value as of December 31, 2016.

in kEUR	Level 1	Level 2	Level 3
Assets			
Derivative financial instruments used as hedging instruments	0	2,455	0
Liabilities			
Derivative financial instruments used as hedging instruments	0	0	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 (e.g., 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

The company uses the maturity ranges of the age structure to determine impairments on accounts receivable. The overdue maturity ranges are impaired by a percentage between 10 % and 100 % based on past experience.

As of December 31, 2017 and December 31, 2016, impairments for accounts receivable totaled EUR 3.2 m and EUR 3.1 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. In accordance with IFRIC 13 "Customer Loyalty Programs," the fair value of the awarded but not yet redeemed bonus points is deferred. 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. Assumptions and methods applied for estimating the measurement of the loyalty program are presented in Note 20.

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. As of the end of the 2016 financial year, the Group no longer had domestic tax loss carryforwards and, therefore, no deferred tax assets for tax losses carried forward were recognized as of December 31, 2017. Further information on deferred taxes is discussed in Note 8.

5. Property, plant and equipment

in kEUR	Other equipment, operating and office equipment	Buildings	Total
Acquisition costs As of January 1, 2016	2,707	0	2,707
Additions	2,203	13,603	15,806
Foreign currency valuation	– 52	0	– 52
Disposals	– 144	0	– 144
As of December 31, 2016	**4,714**	**13,603**	**18,317**
Accumulated depreciation As of January 1, 2016	1,334	0	1,334
Additions	653	523	1,176
Foreign currency valuation	– 10	0	– 10
Disposals	– 92	0	– 92
As of December 31, 2016	**1,885**	**523**	**2,408**
Carrying amounts as of December 31, 2016	**2,829**	**13,080**	**15,909**

in kEUR	Other equipment, operating and office equipment	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**

The net carrying amount of the finance leases as of December 31, 2017, amounted to 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

in kEUR	Proprietary software	Software/ licenses	Advance payments	Total
Acquisition costs As of January 1, 2016	535	11,064	0	11,599
Additions	0	1,419	0	1,419
Foreign currency valuation	0	– 2	0	– 2
Disposals	0	– 44	0	– 44
As of December 31, 2016	**535**	**12,437**	**0**	**12,972**
Accumulated depreciation As of January 1, 2016	535	3,014	0	3,549
Additions	0	441	0	441
Foreign currency valuation	0	– 1	0	– 1
Disposals	0	– 43	0	– 43
As of December 31, 2016	**535**	**3,411**	**0**	**3,946**
Carrying amounts as of December 31, 2016	**0**	**9,026**	**0**	**9,026**

in 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**

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. During the 2017 financial year, there was no amortization on development costs recognized in the statement of comprehensive income and capitalizable development costs of kEUR 4,030 were incurred for proprietary software. All of these development projects are still in the development phase and are therefore not yet depreciated. No research costs were incurred.

Software / licenses concern mainly the implementation of standard software and proprietary 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

in kEUR	2017	2016
Interests in associated companies	38	38
Total	**38**	**38**

The interests in associated companies consist of

- 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; and
- the wholly owned subsidiary Tifuve GmbH, Munich, Germany, founded in May 2013 with share capital of kEUR 25.

These three companies did not conduct any business activities during the financial year and because of their minor importance have not been included in the consolidated financial statements. The interests are categorized in accordance with IAS 39 as available-for-sale financial assets and carried at cost because no active market with publicly available market prices exists and the fair value cannot be determined otherwise. There is no intention to sell these interests.

The consolidated financial statements as of December 31, 2017 included for the first time the wholly owned subsidiary zooplus Austria GmbH, Vienna, Austria, with a share capital of kEUR 35 and founded in 2017. The company commenced operating activities in the 2017 financial year.

8. Income taxes

The essential components of income tax expenses for the financial years 2017 and 2016 are as follows:

in kEUR	2017	2016
Actual income taxes		
Current income taxes	– 814	– 4,716
Deferred income taxes		
from temporary differences	– 1,299	– 97
from tax losses carried forward	0	– 1,659
Total	**– 2,113**	**– 6,472**

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 2017 and 2016 is as follows:

in kEUR	2017	2016
Earnings before taxes	**4,052**	**17,867**
Expected income tax expense (32.98 %)	– 1.336	– 5.892
Deviation from the tax base used for trade taxes	– 37	– 35
Deviation from the expected tax rate	9	– 36
Tax losses carried forward excluding recognized deferred tax assets and impairments	– 136	– 133
Non-deductible expenses from stock options	– 411	– 212
Other non-deductible operating expenses	– 57	– 130
Permanent differences	0	– 20
Non-periodic income taxes	– 87	– 10
Other deviations	– 58	– 4
Effective income tax expense	**– 2,113**	**– 6,472**

Deferred taxes as of the balance sheet data are as follows:

in kEUR	Deferred tax assets		Deferred tax liabilities	
	2017	2016	2017	2016
Deferred taxes				
Derivative financial instruments	168	0	0	810
Finance lease assets	0	0	3,623	4,313
Finance lease liabilities	3,610	4,320	0	0
Inventories	164	114	0	0
Internally generated intangible assets	0	0	1,329	0
	3,942	**4,434**	**4,952**	**5,123**
thereof non-current	2,925	3,610	4,262	3,623
thereof current	1,017	824	690	1,500
	3,942	**4,434**	**4,952**	**5,123**

After offsetting, deferred tax liabilities for the 2017 financial year equaled kEUR 1,010 (previous year: deferred tax liabilities of kEUR 689). Deferred tax assets were not recognized for the EUR 3.9 m (previous year: EUR 3.2 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.

As of December 31, 2017, there were tax liabilities of kEUR 1,344 (previous year: kEUR 4,087). These liabilities consist of provisions for corporate taxes of kEUR 330 mainly concerning foreign income taxes and provisions for trade taxes of kEUR 1,014. Income tax receivables related to German income taxes amounted to kEUR 1,170.

9. Inventories

in kEUR	2017	2016
Raw materials, consumables and supplies	1,061	782
Merchandise	103,481	77,999
Total	**104,542**	**78,781**

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 5,347 (previous year: kEUR 7,092).

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:

in kEUR	Acquisition costs	Not due and not impaired	Overdue and not fully impaired			Overdue and impaired
			< 30 days	30–90 days	> 90 days	
2017	29,594	21,645	4,011	584	35	3,320
2016	22,233	15,814	2,807	390	34	3,188

As of December 31, 2017, impairments have been recognized in the amount of kEUR 3,206 (previous year: kEUR 3,055). The company applies age structure maturity ranges to determine impairments on accounts receivable. Overdue maturity ranges are impaired by a percentage based on past experience. For non-impaired receivables not overdue, there are no indications that the debtors will default on their payment obligations.

Changes in the impairment account were as follows:

in kEUR	2017	2016
As of January 1	3,055	3,494
Additions	2,319	2,145
Utilization	– 2,168	-2,584
As of December 31	**3,206**	**3,055**

12. Other current assets

in kEUR	2017	2016
Creditors with net debit balance	22,355	21,678
VAT receivables	1,944	1,954
Other	3,177	2,011
Total	**27,475**	**25,643**

Creditors with net debit balances refer to claims against suppliers resulting from advertising and marketing campaigns in the financial year as well as volume discounts and are recognized on a net basis against the supplier. Before being netted, claims against suppliers totaled EUR 47.5 m in contrast to outstanding supplier invoices of EUR 25.1 m. All other current assets have maturities of one year or less.

Financial instruments amounted to EUR 24.0 m (previous year: EUR 22.5 m).

13. Derivative financial instruments

in kEUR	2017		2016	
	Assets	Liabilities	Assets	Liabilities
Forward exchange transactions – cash flow hedges	0	509	2.455	0

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 USD. Hedging is carried out using forward exchange transactions. No significant ineffective portions in hedging were detected as of December 31, 2017 reporting date.

The nominal amount of outstanding forward exchange contracts totaled EUR 20.4 m as of December 31, 2017 (previous year: EUR 47.6 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, 2017 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 and ⁄ or cost of materials). This typically occurs in the subsequent twelve months.

As of December 31, 2017, the hedge reserve included the change in fair value of kEUR -509 plus deferred tax effects totaling kEUR 168, which corresponds to a total of kEUR -341. The hedge reserve as of December 31, 2016 totaled kEUR 1,645 (kEUR 2,455 net of deferred tax effects of kEUR -810) and was fully recognized in the statement of comprehensive income in the 2017 financial year based on transactions that had occurred.

14. Cash and cash equivalents

in kEUR	2017	2016
Bank balances	51,190	54,922
Cash on hand	1	2
Total	**51,191**	**54,924**

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, 2017, there were no current bank overdrafts.

15. Equity

Subscribed capital

The subscribed capital corresponds with zooplus AG's share capital and totals EUR 7,137,578.00 (previous year: EUR 7,060,902.00). 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 2017 financial year, zooplus AG's subscribed capital increased as a result of the allocation of 12,776 subscription shares from Conditional Capital 2010 ⁄ I and 63,900 subscription shares from Conditional Capital 2012 ⁄ I, raising subscribed capital by EUR 76,676.00 from EUR 7,060,902.00 to EUR 7,137,578.00.

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

The company's share capital was conditionally increased by EUR 60,000.00 (Conditional Capital 2010 ⁄ I) as of the balance sheet date. Conditional Capital 2010 ⁄ I currently serves to fulfill subscription rights for up to 60,000 no-par value bearer shares and serves to secure subscription rights from stock options for company employees and members of the Management Board. 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 27, 2010 as part of the Stock Option Program 2010 ⁄ 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 36,100.00 (Conditional Capital 2012 ⁄ I) as of the balance sheet date. Conditional Capital 2012 ⁄ I currently serves to fulfill subscription rights for up to 36,100 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.

As of the balance sheet date, the company's share capital was conditionally increased by a further EUR 250,000.00 (Conditional Capital 2016). Conditional Capital 2016 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.

As of December 31, conditional capital was structured as follows:

in EUR	2017	2016
Conditional Capital 2010 ⁄ I*	60,000.00	72,776.00
Conditional Capital 2012 ⁄ I	36,100.00	100,000.00
Conditional Capital 2016	250,000.00	250,000.00
Total	**346,100.00**	**422,776.00**

* After adjusting for the capital increase from company funds

Capital reserves

Capital reserves totaled EUR 98,831,984.63 as of December 31, 2017. Capital reserves increased by an amount of EUR 210,804.00 from the exercise of options originating from the Employee Stock Option Program 2010 ⁄ I and by an amount of EUR 2,564,665.00 as a result of 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 1,245,571.17 (non-cash item).

As of the balance sheet date, capital reserves were structured as follows:

in kEUR	2017	2016
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	10,867	8,092
Convertible bonds ⁄ employee stock options	6,521	5,275
Total	**98,832**	**94,811**

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.

in kEUR	2017	2016
Hedge reserve	– 341	1,645
Currency adjustment items	– 1,038	– 498
Total	**– 1,379**	**1,147**

Profit ⁄ loss for the period and profit carried forward

in kEUR	2017	2016
Profit carried forward as of January 1 (previous year: losses carried forward)	4,851	– 6,544
Net profit for the period	1,938	11,395
Profit carried forward as of December 31	**6,789**	**4,851**

16. Share-based remuneration

in kEUR	2017	2016
Expenses for Management Board members	924	245
Expenses for employees	322	396
Total expenses	**1,246**	**641**

Employee participation programs

Based on the resolution of the Annual General Meeting of May 27, 2010 and the consent of the Supervisory Board on June 15, 2010, the Management Board resolved the establishment of the Stock Option Program 2010 ⁄ I for the issue of stock options with subscription rights for shares of zooplus AG to the company's employees. Under the Stock Option Program 2010 ⁄ I, the Management Board and Supervisory Board permit certain zooplus AG employees to subscribe to up to 170,000 no-par value shares of the company. Under this program, the stock options are issued in two tranches (42,500 ⁄ 42,500) that are each tied to different performance targets. Each option entitles the bearer to subscribe to two zooplus AG no-par value bearer shares with a notional interest in the share capital of EUR 1.00 per share. The subscription price for options issued in 2010 is EUR 17.50 per share. The subscription price for options issued in 2012 is EUR 25.02 per share. The earliest the option rights can be exercised is four years after the options were granted. The subscription rights from 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. The Stock Option Program 2010 ⁄ I expired in the 2017 financial year.

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. 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 subscription rights for stock options can only be exercised if certain performance targets have been achieved. 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).

The subscription rights can be exercised within two years from the date of the vesting period's expiration.

All options can only be converted into equity instruments.

Subject to the conditions of a corresponding resolution by the 2018 Annual General Meeting regarding the authorization of the Supervisory Board to grant further stock options, create corresponding conditional capital and enter the conditional capital in company's commercial register, the Management Board in accordance with contractual stipulations shall receive up to a further 93,750 stock options with the right to subscribe to one no-par-value bearer share of zooplus AG with a notional interest in the share capital of EUR 1.00 per share by September 1, 2018 at the latest under a yet to be launched 2018 Stock Option Program. The terms of a 2018 Stock Option Program will be based, in principle, on the provisions of the 2016 Stock Option Program. The other 2018 stock options will only be issued if their fair value at the time of their issue does not exceed 150 % of the total fair value of the stock options granted to members of the Management Board in 2016.

Should the criteria for granting further stock options to the members of the Management Board (a resolution of the Annual General Meeting, entry of conditional capital in the commercial register) are not met by September 1, 2018, the Supervisory and Management Boards will establish a cash bonus plan in which the respective Management Board members' expected payout is economically comparable to a hypothetical grant of further stock options requiring a comparable development in the share price (corresponding to a synthetic grant of stock options under the terms of the 2016 Stock Option Program).

The fair value of the stock options granted is determined by applying a Monte Carlo simulation as of the grant date (2016 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.

	2016 Stock Option Program (SOP) for the Management Board	2016 Stock Option Program (SOP) for Employees
Average share price (EUR)	129.30	128.60
Expected volatility (%)	36.0	35.6
Risk-free interest rate (%)	–0.62	–0.61
Dividend yield (%)	0.0	0.0
Anticipated term of options (in years)	4.0	4.0

Stock Option Program (SOP) for the Management Board	**2018**
Average share price (EUR)	147.69
Expected volatility (%)	33.1
Risk-free interest rate (%)	0.00
Dividend yield (%)	0.0
Anticipated term of options (in years)	4.0

The development of stock options is as follows:

	2010 / I*	2012 / I**	2016**
Outstanding at beginning of reporting period	6,388	80,500	148,400
Forfeited during the reporting period	0	– 4,000	– 2,200
Exercised during the reporting period	– 6,388	– 63,900	0
Granted in the reporting period	0	0	0
Outstanding at end of the reporting period	**0**	**12,600**	**146,200**

** Each option authorizes the subscription to two shares*
*** Each option authorizes the subscription to one share*

The exercise price for shares still outstanding as of December 31, 2017 was in the range of EUR 39.54 to EUR 124.45 per share. The weighted average share price on the date the options were exercised was EUR 172.90 (previous year: EUR 126.71). At the end of the reporting period, 12,600 (previous year: 6,388) options were exercisable. The weighted average remaining contractual term for the outstanding stock options as of December 31, 2017 was 2.75 years (previous year: 2.6 years).

Cash-settled share-based remuneration

Long-term incentive program for the Management Board
A long-term incentive program in the form of 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. With each tranche, a number of virtual shares of 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, 2017 reporting date, the members of the Management Board are entitled to a total of 11,966 subscription rights (2016: 14,412) from this program with a fair value of kEUR 2,116.

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, 2017.

Cash-settled share-based remuneration (LTI) for the Management Board	2016 tranche	2015 tranche	2014 tranche
Share price on the reporting date in EUR	150.05	150.05	150.05
Initial reference price in EUR	146.50	117.80	93.40
Expected volatility (%)	33.41	27.09	33.42
Risk-free interest rate (%)	0.0	0.0	0.0
Remaining term in years	2.4	1.4	0.4

The development was as follows:

in kEUR	2017	2016
Obligations from cash-settled share-based remuneration	2,116	1,738
Total	**2,116**	**1,738**

This obligation is recognized under current and non-current liabilities. The related personnel expenses recognized in the 2017 financial year were as follows:

in kEUR	2017	2016
Expenses from cash-settled share-based remuneration	660	– 42
Total	**660**	**– 42**

The total expenses incurred in the 2017 financial year stemming from share-based remuneration from the issue of equity instruments (kEUR 1,246) and cash settlement (kEUR 660) were kEUR 1,906 (previous year: kEUR 599).

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 25.2 m were reclassified in assets as creditors with net debit balance and offset against receivables from these suppliers.

18. Financial liabilities

The company possesses credit lines totaling EUR 50.0 m (previous year: EUR 40.0 m) and maturing on November 30, 2020. These credit lines had not yet been utilized as of the December 31, 2017 balance sheet date as was the case on the December 31, 2016 balance sheet date. Credit lines were not utilized during the 2017 financial year. The company did not have any bank liabilities as of 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 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

in kEUR	2017	2016
Tax liabilities		
VAT	12,744	12,548
Wage and church taxes	1,162	383
Sub total	**13,906**	**12,930**
Additional other liabilities		
Creditors with net debit balances	6,082	4,332
Profit-sharing and bonuses	2,399	2,352
Employee vacation obligations	1,048	709
Financial statement and auditing costs	120	115
Other	1,010	928
Sub total	**10,658**	**8,436**
Total	**24,564**	**21,366**

Other current liabilities have maturities of one year or less and are non-interest bearing. Creditors with net debit balances are customer balances resulting from advance / excess payments or returns.

Financial instruments amounted to EUR 6.6 m (previous year: EUR 4.5 m).

20. Provisions

in kEUR	Current				Non-current	Total
	Loyalty rewards	Returns	Outstanding contributions	Other	Share-based cash remuneration	
As of January 1, 2016	3,520	427	3,372	1,067	1,780	10,166
Additions	4,166	519	668	317	0	5,670
Reclassifications	0	0	0	234	–234	0
Reversals	602	0	679	177	42	1,500
Utilization	2,918	427	1,296	140	0	4,781
As of December 31, 2016	**4,166**	**519**	**2,065**	**1,301**	**1,504**	**9,555**
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**

Provisions for loyalty rewards (unredeemed bonus points) from the customer loyalty program totaled kEUR 3,959 as of December 31, 2017 (previous year: kEUR 4,166). These provisions are calculated by deriving the bonus points still redeemable under the applicable conditions of participation as of the December 31, 2017 reporting date and measured taking into account the customers' historical redemption behavior and the fair value of a bonus point based on the sale prices of the products available in the loyalty program. Other provisions contain, among others, provisions for sales coupons and outstanding contributions.

Current provisions are anticipated to have a cash outflow during the current 2018 financial year.

21. Deferred income

Deferred income contains discount plans already purchased by customers but not yet utilized in the amount of kEUR 2,928 (previous year: kEUR 2,425).

22. Sales

in kEUR	2017	2016
Germany	272,724	236,059
France	186,921	153,508
Great Britain	91,248	80,358
Italy	90,494	75,049
Poland	80,115	57,046
The Netherlands	73,178	62,391
Spain	62,832	49,823
Belgium	48,745	37,821
Austria	32,265	26,471
Switzerland	30,430	22,681
Czech Republic	25,998	20,164
Denmark	24,756	20,571
Sweden	22,108	16,745
Finland	20,460	17,390
Other countries	48,359	32,533
Total	**1,110,633**	**908,610**

The Group's sales mainly consist of the sales of pet supplies in Germany and other European countries.

A total of 83 % of sales were mainly generated from the sale of food and the remaining 17 % mainly from the sales of accessories.

23. Other income

in kEUR	2017	2016
Income from marketing services	44,985	33,545
Income from currency gains	3,897	3,881
Income from late fees	630	575
Other income	3,246	5,354
Total	**52,758**	**43,355**

Income from marketing services mainly consists of refunds for marketing from suppliers.

24. Own work capitalized

In contrast to prior years, zooplus place a much stronger focus on the accelerated expansion and improvement of its proprietary software platform in the 2017 financial year. The added internal software development capacity and the related development work resulted in the capitalization of internally generated intangible assets and related own work capitalized of kEUR 3,469.

25. Personnel expenses

in kEUR	2017	2016
Wages and salaries	33,326	24,852
Social security contributions	5,811	4,259
Total	**39,137**	**29,111**

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 512 people (previous year: 386, excluding the Management Board). Of this total, 50 employees were allocated to Operations, 178 to IT, 219 to Sales and Marketing and 65 to Administration.

26. Other expenses

in kEUR	2017	2016
Logistics & fulfillment	219,943	175,989
Marketing	19,267	12,823
Payment transaction expenses	11,336	9,584
IT services	6,425	5,556
Currency losses	4,567	4,695
Customer service	4,463	3,735
Office leases	2,358	1,711
Legal and advisory	2,088	2,012
Additional other operating expenses	8,876	5,421
Total	**279,323**	**221,526**

Logistics and fulfillment expenses relate to warehousing, order picking and shipping products sold to end customers.

27. Financial income and expenses

in kEUR	2017	2016
Interest income and similar income	21	1
Interest expenses and similar expenses	–418	–213
Total	**–397**	**–212**

28. 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:

		2017	2016
Consolidated net profit ⁄ loss	EUR	1,938,313.80	11,395,068.06
Weighted average number of no-par-value shares outstanding	Number of	7,095,036	7,011,193
Dilution effect			
Stock options	Number of	34,380	104,756
Weighted average number of no-par-value shares outstanding			
adjusted for dilution	Number of	7,129,416	7,115,949
Basic earnings per share	EUR ⁄ share	0.27	1.63
Diluted earnings per share	EUR ⁄ share	0.27	1.60

29. Leases

The finance lease liabilities of EUR 10.9 m relate to future lease payments in connection with leased assets in the fulfillment center in Wroclaw, Poland. In the past financial year, EUR 2.1 m was recognized as depreciation and EUR 0.2 m as interest expense. The underlying lease expires on March 31, 2023. The minimum lease payments for these finance lease liabilities in the 2017 financial year were as follows:

in 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

in kEUR Lease liabilities	**31/12/2016**	**Cash outflow**	**31/12/2017**
	13,100	2,151	10,949

Obligations from lease and rental contracts (operating leases) with the following maturities existed on the reporting date:

One year or less	kEUR	14,552
Between one and five years	kEUR	27,623
More than five years	kEUR	768

These obligations concern mainly lease payments for fulfillment centers. The expense recognized in the financial year under operating leases amounted to EUR 13.4 million.

30. Related party disclosures

With the exception of the salaries paid to executive bodies (see Note 34), 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. Dr. Stoeck, Mr. Greve and Mr. Holland are the only Supervisory Board members who hold shares in the company.

31. Collateral

There was no collateral as of December 31, 2017.

32. Additional information about financial instruments

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 IAS 39:

in kEUR	Measurement category	Carrying amount		Fair value	
		2017	2016	2017	2016
Financial assets					
Accounts receivable	LaR	26,388	19,178	26,388	19,178
Other financial assets	Afs	38	38	n / a	n / a
Other current assets					
of which financial instruments pursuant to IFRS 7	LaR	23,958	22,487	23,958	22,487
Derivative financial instruments	n / a	0	2,455	0	2,455
Cash and cash equivalents	LaR	51,191	54,924	51,191	54,924
Total		**101,575**	**99,082**	**101,537**	**99,044**
Financial liabilities					
Accounts payable	FLaC	78,133	46,988	78,133	46,988
Other liabilities					
of which financial instruments pursuant to IFRS 7	FLaC	6,600	4,474	6,600	4,474
Finance lease liabilities	n / a	10,949	13,100	10,949	13,100
Derivative financial instruments	n / a	509	0	509	0
Total		**96,191**	**64,562**	**96,191**	**64,562**

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, 2017 and December 31, 2016 equal their carrying amounts. This is primarily due to the short maturities of these types of instruments.

For the other financial assets (interests in non-consolidated Group companies), an active market or quoted price is not available to measure these assets, and there is no other way to determine their value which is the reason the disclosure of the fair value has been omitted. These instruments are not intended to be sold.

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 8,870 are long-term in nature. Repayments of the existing financial liabilities are made from operating cash flow.

Grouped according to the measurement categories of IAS 39, the carrying amounts are as follows:

in kEUR	Measurement category	Carrying amount		Fair value	
		2017	2016	2017	2016
Financial assets					
Loans and Receivables	LaR	101,537	96,589	101,537	96,589
Available for Sale	AfS	38	38	n / a	n / a
Financial liabilities					
Financial Liability at amortized Cost	FLaC	84,733	51,462	84,733	51,462

Net gains or losses in relation to financial instruments are as follows:

in kEUR	2017	2016
Loans and Receivables (impairments)	– 2,319	– 2,145
Financial Liability at Amortized Cost (interest)	0	0
Total	**– 2,319**	**– 2,145**

As of December 31, 2017, there was no offsetting of derivative financial instruments. Offsetting options for derivatives exist in the case of insolvency. As of December 31, 2017, only derivatives with negative fair values existed.

33. Subsequent events

After the end of the 2017 financial year, there were no events of particular importance that impact the net assets, financial position and results of operations.

34. Executive bodies

Members of the Management Board:

- Dr. Cornelius Patt, CEO (Corporate Management, overall responsibility for Business Development & System Development, IT, Logistics, Supply Chain Management and HR)
- Andrea Skersies (Sales & Marketing, Category Management)
- Andreas Grandinger (Finance, Controlling, Legal, Investor Relations, Internal Audit, Procurement)

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. For the 2017 financial year, the company is reporting the remuneration of the Management Board members on an individualized basis for the first time. Until and including the 2016 financial year, the company was exempt from disclosing the individual Management Board remuneration by resolution of the Annual General Meeting on May 22, 2012. The Remuneration Report is part of the group management report.

The total remuneration of the Management Board (German Commercial Code – HGB) for all components amounted to EUR 1.1 m in the 2017 financial year (previous year: EUR 3.8 m). The prior year was largely impacted from granting stock options under the 2016 Stock Options Program (100,000 shares valued at EUR 2.5 m).

Remuneration under IAS 24 amounted to EUR 2.7 m in the 2017 financial year (previous year: EUR 1.5 m).

Management Board remuneration under IAS 24 in kEUR	**2017**	**2016**
Short-term benefits	1,126	1,306
Share-based payments	1,584	203
Total remuneration	**2,710**	**1,509**

in kEUR	**12/31/2017**	**12/31/2016**
Provisions for short-term benefits	0	93
Provisions for share-based payments	2,116	1,738
Total provisions	**2,116**	**1,831**

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 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.

35. 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	2017	2016
a) Auditing services	254	215
b) Other assurance services	0	0
c) Tax consulting services	42	0
d) Other services	0	0
Total	**296**	**215**

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.

36. 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/investorrelations.html.

Munich, March 15, 2018

The Management Board

Dr. Cornelius Patt   Andrea Skersies   Andreas Grandinger

Declaration of the legal representatives

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 group 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 15, 2018

Dr. Cornelius Patt   Andrea Skersies   Andreas Grandinger

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 31 December 2017, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from 1 January to 31 December 2017, 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 for the financial year from 1 January to 31 December 2017. We have not audited the content of the statement on corporate governance pursuant to § [Article] 289f HGB [Handelsgesetzbuch: German Commercial Code] and § 315d HGB in accordance with the German legal requirements.

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 § 315e Abs. [paragraph] 1 HGB and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2017, and of its financial performance for the financial year from 1 January to 31 December 2017, 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 the statement on corporate governance referred to above.

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 1 January to 31 December 2017. 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:

❶ Revenue recognition from business with customers, income from savings plans, and provisions for bonus points

❷ 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:

❶ Revenue recognition from business with customers, income from savings plans, and provisions for bonus points

① In the consolidated financial statements of zooplus AG revenue amounting to EUR 1.110,6 million is reported in the consolidated statement of comprehensive income. It relates to, among other things, the sale of goods via various online portals in Germany and other European countries. Since large-volume transactions are involved, the Company has established extensive 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 savings 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, and in doing so the consideration is allocated to the bonus points according to 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 pursuant to IFRIC Interpretation 13, and only recognized as revenue when the bonus points are redeemed and zooplus AG has fulfilled its contractual obligations. A corresponding provision is recognized in the amount of the fair value. As of the balance sheet date, provisions of kEUR 3.959 were recognized in this regard. Provisions 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 significant item in terms of its amount as well as the use of measurement methods to determine the provisions 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 evaluated, 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 assessed 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 recorded completely. 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 provisions for bonus points recognized as at the balance sheet date, we examined, among other things, the measurement method used 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 provisions 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 provisions for bonus points are appropriately recognized.

(3) The Company's disclosures on revenue and provisions for bonus points are contained in sections 20. and 22. of the notes to the consolidated financial statements.

(2) Recognition and measurement of inventories

(1) In zooplus AG's consolidated financial statements inventories of EUR 104,5 million are reported. Inventories comprise primarily goods. To manage large volumes of inventories, the Company has established extensive 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 IAS 39, the effective portion of the changes in fair value are recognized over the duration of the hedging relationships directly in equity until the maturity 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 at 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 were fully recorded by, among other things, observing physical inventory counts and 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 hedges, 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 assessment of the fair values of cash flow hedges, we also evaluated the measurement method based on market data and the underlying data used. With respect to the hedging of expected future cash flows, we mainly carried out a retrospective assessment of the past hedge effectiveness and of the expected future hedge effectiveness, and assessed the corresponding effectiveness tests. We obtained bank confirmations in order to assess the completeness of and to examine the fair values of the recorded transactions. We examined the calculation of net realizable value and that it had been calculated consistently and comprehensible. We evaluated the appropriateness and accuracy of the underlying parameters and assessed that these parameters had been sufficiently 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 substantiated and sufficiently documented.

3 The Company's disclosures on inventory measurement and derivative financial instruments are contained in sections 9. and 13. of the consolidated financial statements.

Other Information

The executive directors are responsible for the other information. The other information comprises the statement on corporate governance pursuant to § 289f HGB and § 315d 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 31 May 2017. We were engaged by the supervisory board on 20 November 2017. 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.

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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 65 to 70. We do not assume any obligation to update the forward-looking statements contained in this report.

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