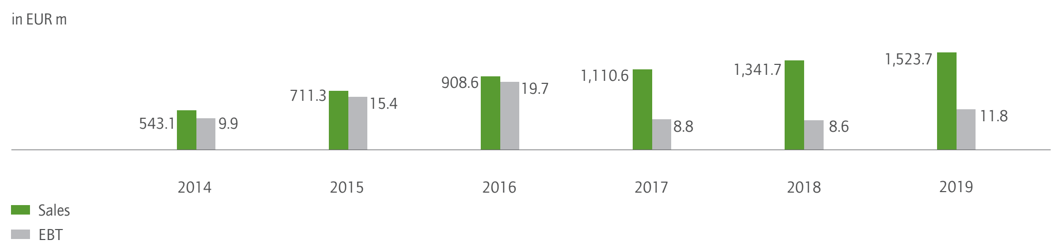
Annual Report

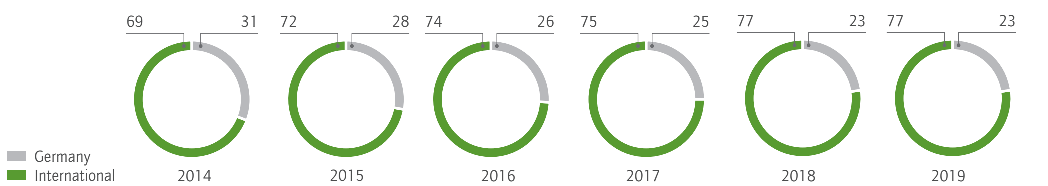
2019

# Key figures

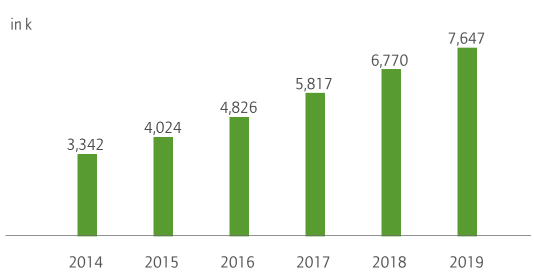
## Sales and EBITDA 2014–2019



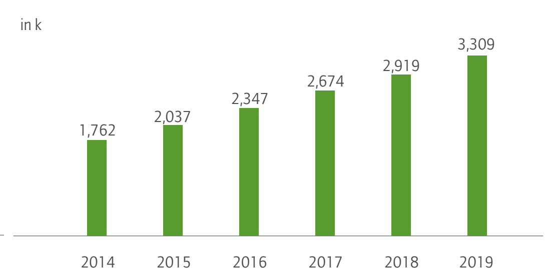

## Sales by region in %



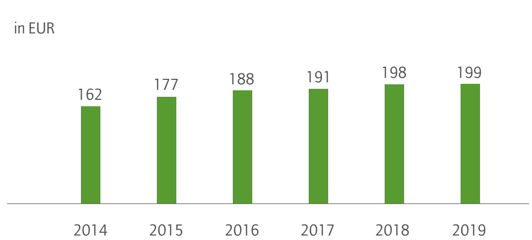

## Active customers



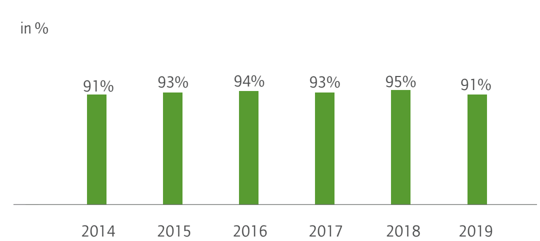

## New customers[1]



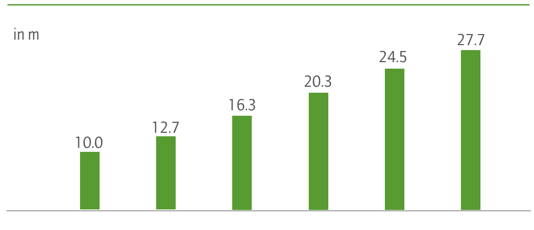

## Sales per customer[2]



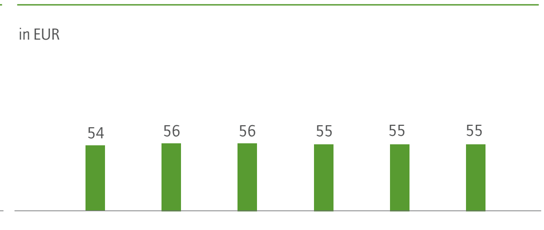

## Sales retention rate[3]




## Number of orders




## Average shopping basket[2]




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

# Multi-year performance

| | | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|---|
| Sales | in EUR m | 543.1 | 711.3 | 908.6 | 1,110.6 | 1,341.7 | 1,523.7 |
| Other Income | in EUR m | 27.8 | 31.3 | 43.4 | 52.8 | 8.6 | 9.5 |
| Cost of materials | in EUR m | – 393.0 | – 518.2 | – 681.6 | – 839.6 | – 956.8 | – 1,082.1 |
| Gross margin | in % | 27.6 % | 27.1 % | 25.0 % | 24.4 % | 28.7 % | 29.0 % |
| EBITDA | in EUR m | 9.9 | 15.4 | 19.7 | 8.8 | 8.6 | 11.8 |
| EBT | in EUR m | 8.8 | 12.7 | 17.9 | 4.1 | – 2.3 | – 15.9 |
| EPS – Earnings per share [1] | in EUR | 0.83 | 1.13 | 1.63 | 0.27 | – 0.29 | – 1.69 |
| Employees | number | 267 | 313 | 386 | 512 | 635 | 713 |
| Total assets | in EUR m | 138.6 | 165.3 | 207.6 | 239.5 | 301.8 | 361.0 |
| Inventories | in EUR m | 65.0 | 74.5 | 78.8 | 104.5 | 107.6 | 117.7 |
| Equity | in EUR m | 86.2 | 93.2 | 107.9 | 111.4 | 111.1 | 100.8 |

[1] Basic EPS

# Statement of income Q1–Q4 / 2019

| | | Q1 / 2019 | Q2 / 2019 | Q3 / 2019 | Q4 / 2019 |
|---|---|---|---|---|---|
| Sales | in EUR m | 363.2 | 363.5 | 377.6 | 419.4 |
| Cost of materials | in EUR m | – 260.9 | – 259.1 | – 269.4 | – 292.7 |
| Gross margin | in % | 28.2 % | 28.7 % | 28.7 % | 30.2 % |
| EBITDA | in EUR m | 2.2 | 2.3 | 2.2 | 5.1 |
| EBT | in EUR m | – 4.5 | – 4.6 | – 4.8 | – 2.0 |

# Highlights 2019

## 20th company anniversary

zooplus celebrates its 20th anniversary with activities for people and animals – from a floating dog park and birthday offers to a photo box tour across Europe in a VW van

## Sales increase by 14 % to more than EUR 1.5 bn

Leading market position in online retailing for pet supplies further strengthened;
sales growth in all 30 country markets

## High loyalty of existing customers; dynamic acquisition of new customers

Currency adjusted sales retention rate at 91 %

## Above-average growth of 29 % in private label business

Share of private label business (food and litter) in total sales increased to 16 %

## EBITDA within forecasted corridor; gross margin further stabilised

EBITDA of EUR 11.8 m within expected corridor of EUR 10 to 30 m; gross margin slightly up to 29.0 %

## Increase in free cash flow to around EUR 25 m

Growth financed entirely through positive free cashflow

# zooplus AG

Founded in 1999, today zooplus AG, as Europe's leading online retailer for pet supplies, can look back on more than 20 years of experience. Measured by sales, zooplus is already number two in the overall European market comprising both bricks-and-mortar and online sales of pet supplies. The company sells around 8,000 products covering all major pet breeds. The product range includes primarily pet food (dry and wet food, food supplements) and accessories (such as scratching posts, dog baskets and toys) in all price categories. Next to a vast selection and fast, free delivery, zooplus customers also benefit from a variety of interactive content and community offers. Until now, the zooplus AG business model has been successfully implemented in 30 European countries, making zooplus AG the only truly pan-European internet retailer for pet supplies. Since its initial public offering in 2008, the Group's sales have risen from EUR 80 m to a total of EUR 1,524 m in the 2019 financial year.

Within the European retail landscape, pet supplies represent a significant market segment. The European pet supply market currently has a gross market volume of around EUR 30 billion. Alongside population growth and the progressive "humanization" of pets in most countries, the overall pet supply market is expected to continue to grow in the years ahead. Additionally, Europe is expected to see further strong growth in online retailing. zooplus AG will follow its strategy of continued and sustainable business expansion and expects another year of sales growth in 2020.

# zooplus at a glance

## Customers

- Operating in 30 countries across Europe
- Essential USPs from a customer standpoint: competitive pricing, selection and quality of delivery
- A specialist in pet food and accessories


## Company

- European online market leader by a large margin
- Excellent international logistics network for fast delivery throughout Europe
- Exceptionally efficient and scalable cost structures

## Market

- Today's European pet supply market has gross sales of rd. EUR 30 bn
- A steadily growing overall market
- Significant growth in the online retailing of pet supplies

## Market leader in the online retailing of pet supplies

Founded in 1999, today zooplus AG is Europe's leading online retailer for pet supplies. Measured by sales, zooplus ranks second in the overall European market comprising both bricks-and-mortar and online sales of pet supplies. In 2019, the company achieved a sales volume of EUR 1.5 bn. With more than 7 million active customers, zooplus' unique selling points include its competitive pricing, wide selection and high quality of delivery.

## Europe-wide presence

Following its successful international expansion and the continued growth of its business, zooplus AG is the only pan-European online retailer of pet supplies. Though its web shops, zooplus AG offers customers its product range in over 20 languages. A pan-European logistics network ensures fast, efficient and flexible delivery along with a high general product availability for zooplus customers throughout Europe.

## The European pet supplies market

Pet supplies are an important market segment in the European retail landscape. In 2019, pet food and accessories in Europe recorded gross sales of around EUR 30 billion. Due to the growing population and the progressive "humanization" of pets in most countries, the overall market is projected to continue growing in the coming years. Additionally, Europe is expected to see further strong growth in online retailing. zooplus AG therefore expects a further expansion of its business.

## Exclusive brands

Since 2004, zooplus AG has been selling not only brand name products but also those from its own portfolio of private labels, which are sold exclusively at zooplus web shops. The most recognizable private label brands include Wolf of Wilderness, Purizon, Rocco, Cosma, Lukullus and Concept for Life. Under the exclusive "zoolove" brand, zooplus also operates a charity brand with the motto "Simply do good". 10% of all sales of zoolove products is donated to selected animal welfare organizations.

# Key figures 2019

**rd. EUR 30 bn**

**Pet supplies market in Europe (gross)***
**+2-3 % p.a.**

**80 m**

**Households with ≥ 1 pet in Europe****

**EUR 1.5 bn**

**Sales**
**+14 %**

**91 %**

**Sales retention rate**

**7.6 m**

**Active customers in Europe**
**+13 %**

**+30 %**

**More page visits on the zooplus webshops**

* Based on Euromonitor International 2020 and management estimates

** FEDIAF European Facts & Figures 2018

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## To the shareholders


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# Letter from the Management Board

Left to right: Dr. Mischa Ritter, Florian Welz, Dr. Cornelius Patt, Andreas Maueröder

## Dear Ladies and Gentlemen, Dear Shareholders,

With zooplus, we embarked on an exciting journey 20 years ago – from a start-up on an expansion course to today's leading online retailer and specialist for pet supplies throughout Europe. With our IPO in 2008 and being included in the SDAX in 2011, we were also able to achieve two important milestones in our stock market history.

We added another year to our growth story in 2019. We achieved sales of over EUR 1.5 bn in the European market and continued to benefit from the further penetration of online retailing in the pet supplies market. With online retailing contributing only 14 % to 16 %, this market still offers tremendous further growth potential. Overall, we are operating in an attractive, growing market with a gross volume of roughly EUR 30 bn in Europe in 2019. Today, around 80 million European households have at least one pet – and the tendency is rising. The "humanization of pets" is a trend that is accompanied by a willingness to spend more on pets and represents an important growth factor for the market as a whole.

In 2019, we also made targeted investments in the expansion of our logistics capacity. With the new logistics center in Stradella near Milan, we are now even closer to our customers in South-Eastern Europe than before. By expanding our logistics capacity and further optimizing the calculation of costs relative to the parcel value, we were able to significantly reduce our logistics cost ratio in relation to sales.

The "20 years of zooplus" campaign, which started in May 2019, also marked the kick-off to our brand campaign. In 2019, we grew closer to the consumers with zooplus as a brand and, especially in social media, significantly increased the awareness towards it. As a result, we reach a broad and targeted animal lover audience beyond the search engine results.

We are particularly proud of the performance of our exclusive private label product range, which is sold through the zooplus brand shops. The sales contribution increased by two percentage points over the previous year to 16 % of total food and litter sales (2018: 14 % sales contribution). With sales of more than EUR 200 m, this product line is now a valuable sales driver, which both reflects our differentiation from other pet supply providers and underscores our expertise in this category, especially in the premium segment.

In addition to our extensive product range, price and delivery competitiveness, the loyalty of our customers – measured in terms of the sales retention rate – is one of the most important pillars of our business. At 91 %, the sales retention rate remained at a high level in 2019, which once again demonstrates the appeal of our product offering, as well as the loyalty to zooplus of our 7.6 million active customers, and forms the foundation for our future growth.

During this past financial year, we increased our sales by EUR 182 m to EUR 1,524 m, which corresponds to sales growth of around 14%. We were again able to finance our growth internally from free cash flow. We also made more progress in this area by further optimizing our working capital during the past year. Our operating profitability, measured by earnings before interest, taxes, depreciation and amortization (EBITDA), amounted to EUR 11.8 million. Overall, the results are at the lower end of our guidance issued in March 2019, mainly as a result of the slight decline in the sales retention rate in the course of the year. The effects from the implementation of the General Data Protection Regulation in 2018 on the acquisition and retention of new customers is also reflected in 2019. Thanks to our enhanced focus on customer retention and a better direct marketing approach, the first indications of an improvement in the reactivation rate (measured in terms of customer retention in the early stages of the customer life cycle) were already visible in the third quarter of 2019.

In 2020, we will continue to invest in the long-term expansion of our business with a clear focus on customer activation and loyalty.

We would like to express our sincere thanks to our employees at all our locations throughout Europe for their tremendous commitment, loyalty and performance, which are essential to zooplus AG's success. After nine years as head of the finance department, we would also like to welcome Mr. Andreas Maueröder to the zooplus AG Management Board team as our new Chief Financial Officer effective January 1, 2020. At the same time we would like to thank Mr. Andreas Grandinger, our former CFO, for his valuable commitment over the past six years, which has contributed significantly to the successful development of zooplus AG.

We would like to express our appreciation to our customers, suppliers and all other business partners once again for their excellent and close cooperation in the 2019 financial year. They have all supported us on continuing on our growth path.

And finally, we would like to extend our special thanks to you, our shareholders, particularly for your loyalty to the company.

We appreciate your trust in us and will continue to devote all of our energy to the future successful and steady development of zooplus AG.

| | | | |
|---|---|---|---|
| Dr. Cornelius Patt<br>CEO | Andreas Maueröder | Florian Welz | Dr. Mischa Ritter |

# Report of the Supervisory Board

## Dear Shareholders,

During the 2019 financial year, the Supervisory Board performed its duties in accordance with the law, Articles of Association and Rules of Procedure while continually monitoring and advising the Management Board in its management of the company and conducting the company's business.

## Cooperation with the Management Board

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

## Focus of discussions in the 2019 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 2019 financial year, the Supervisory Board met for four scheduled, personally attended meetings on March 14, 2019, June 14, 2019, September 20, 2019, and November 26, 2019. Several resolutions based on the written circulation of documents and via telephone were made during the financial year.

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

At the meeting on March 14, 2019, the Supervisory Board focused on the current business development, as well as that of the 2018 financial year. The Supervisory Board reviewed the annual financial statements and management reports of zooplus AG and the Group as of December 31, 2018 presented by the Management Board. The Supervisory Board approved the auditor's findings and the annual financial statements and thereby adopted the 2018 annual financial statements. The meeting's agenda also included the approval of the topics for the 2019 internal audit, as well as the issue of stock options under the 2018 / I Stock Option Program. Key topics for discussion were also the expansion of the company's logistics capacity in the UK and Italy, the IT organization and a detailed overview of the organizational structure in Marketing & Sales as part of the expanded strategic marketing approach.

In April 2019, the Supervisory Board set the agenda for the 2019 Ordinary Annual General Meeting.

Following the Ordinary Annual General Meeting of zooplus AG, the Supervisory Board assembled at its meeting on June 14, 2019, in which the Supervisory Board and Management Board focused specifically on operating issues in marketing, as well as the disaster recovery measures in the event of a potential failure of a single major IT component.

The Supervisory Board meeting on September 20, 2019 was devoted to current business developments, updates from the Management Board members on their individual areas of responsibility, as well as to the company's strategy, including its positioning, the market, and the competitive environment. The Supervisory Board and Management Board also resolved to invest further in the fulfillment center in Coventry, UK.

During the meeting on November 26, 2019, the Management Board reported on current business and market developments and presented the zooplus AG 2020 financial plan to the Supervisory Board who approved the plan after a review and discussion. Also on the meeting's agenda was the appointment of Andreas Maueröder as the new chief financial officer as of January 1, 2020, the conclusion of his employment contract and the approval of the updated schedule of responsibilities for the Management Board. Other topics in the meeting included compliance with the recommendations of the German Corporate Governance Code in its current version and approving the updated Declaration of Conformity. In connection with this, the Supervisory Board also discussed the results of the concluded efficiency review of its activities. Further items resolved and dealt with by the Supervisory Board included selected aspects of corporate social responsibility and the renewal of the contract with the service provider for the fulfillment center in Hörselgau, Germany.

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

In the year under review, the Supervisory Board consisted of Christian Stahl (Chair), Moritz Greve (Deputy Chair), Karl-Heinz Holland, Ulric Jerome, Henrik Persson and Dr. Norbert Stoeck. Karl-Heinz Holland resigned from office at his own request with effect from October 31, 2019. As of November 1, 2019, Christine Cross was appointed by the court as a member of the Supervisory Board for a limited period until the end of the ordinary Annual General Meeting 2020.

The members of the Supervisory Board as a whole are familiar with the sector in which the company operates. Dr. Stoeck, among other things, is a qualified financial expert as defined by Section 100 (5) AktG.

The members of the Management Board during the financial year were Dr. Cornelius Patt (Chair), Andreas Grandinger, Dr. Mischa Ritter and Florian Welz. Andreas Grandinger resigned from the Management Board at the end of December 20, 2019. Andreas Maueröder was appointed as a new member of the Management Board to succeed Andreas Grandinger with effect from January 1, 2020.

## Supervisory Board committees

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

During the reporting year, the **Audit Committee** consisted of Dr. Stoeck (Chair of the Audit Committee), Mr. Greve and Mr. Holland (until October 31, 2019), as well as Ms. Cross (as of November 1, 2019). Dr. Stoeck possesses special knowledge and experience in the application of accounting principles and internal control procedures and fulfills the criterion of independence. In addition, the members of the Audit Committee as a whole are familiar with the sector in which the company operates.

The Audit Committee held four face-to-face meetings during the reporting year. In its meeting on March 11, 2019, the Committee dealt extensively with the separate financial statements and consolidated financial statements of zooplus AG for the 2018 financial year. In subsequent meetings during the reporting year, the Audit Committee dealt in depth with the company's accounting processes; the effectiveness of the internal, Group-wide control and risk management system and its further development. Other important topics were the internal audit, corporate and tax law issues, as well as the structure and conditions of supplier relationships. At the Supervisory Board meetings, the chairperson of the Audit Committee provided a complete report to the Supervisory Board on the committee meetings' content and results following the respective committee meeting.

The members of the **Personnel Committee** in the reporting year were Mr. Stahl (Chair of the Personnel Committee), Mr. Greve and Mr. Jerome. The task of the Personnel Committee is to prepare the personnel decisions of the Supervisory Board plenum that resolve on the reappointment of the members of the Management Board. The resolution on the extension of the appointment of the members of the Management Board, the total remuneration of the individual members of the Management Board, the individual remuneration components and the regular review of the remuneration system are the responsibility of the Supervisory Board plenum, which receives recommendations from the Personnel Committee. The Personnel Committee did not hold any face-to-face meetings in the reporting year but instead held several in-depth conference calls to come to an agreement on the changes in the Management Board. In rotation, the members of the Personnel Committee met with Mr. Maueröder as the potential successor on the Management Board. The Committee members held close discussions about the final recommendation submitted by the Personnel Committee to the Supervisory Board for resolution on appointing Mr. Maueröder as a new member of the Management Board.

The **Nomination Committee** during the reporting year comprised Mr. Greve (Chair of the Nomination Committee), Mr. Stahl and Mr. Persson. The Nomination Committee is tasked with proposing suitable candidates to the Supervisory Board for the nomination of Supervisory Board members to the Annual General Meeting. The Nomination Committee did not hold any face-to-face meetings in the reporting year but instead held several conference calls to thoroughly discuss the changes in the Supervisory Board following Mr. Holland's resignation from office. The members of the Nomination Committee met in rotation with candidates for the Supervisory Board seat and were in close communication about the selection process and the final recommendation. The Nomination Committee submitted its recommendation to the Supervisory Board for the court appointment of the new Supervisory Board member.

## 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 (https://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, 2019

During the Supervisory Board's financial statement meeting on March 23, 2020, 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, 2019, the combined management report for the company and the Group for the 2019 financial year. The auditor's reports, the annual financial statements and consolidated financial statements both prepared by the Management Board and the combined management report of zooplus AG and the Group were presented to the Audit Committee and the Supervisory Board on schedule, giving them sufficient opportunity to review these documents.

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

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

The Audit Committee recommended to the Supervisory Board that it approve the financial statements prepared by the Management Board. Upon a thorough examination of the annual financial statements, consolidated financial statements, and the management report, the Supervisory Board concurred with the respective auditor's reports. After the final result of the review from the Audit Committee and the examination by the Supervisory Board, there were no objections raised. The Supervisory Board approved the annual and consolidated financial statements at its meeting on March 23, 2020, 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.

For the 2019 financial year, as in the previous year, a separate non-financial group report was prepared pursuant to Section 315c in conjunction with Sections 289c through 289e HGB. In accordance with the recommendation of the Audit Committee pursuant to Sections 170 and 171 AktG, the Supervisory Board examined the legal, proper and expedient preparation of the separate non-financial group report and critically examined the methods and procedures used by the Management Board as well as the data collection processes. The separate non-financial group report was subject to an audit review by the auditor. As part of the audit procedures performed and the audit evidence obtained, no circumstances have become known which would indicate that the non-financial group report has not been prepared in all material respects in accordance with Section 315c in conjunction with Sections 289c through 289e HGB. According to the final result of this audit, there were no grounds for objection, and on March 23, 2020, the Supervisory Board approved the separate non-financial group report prepared by the Management Board.

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

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

Munich, March 2020

On behalf of the Supervisory Board

Christian Stahl
Chair of the Supervisory Board

# Statement on Corporate Governance pursuant to Sections 289f and 315d of the German Commercial Code (HGB) including the Corporate Governance Report

## 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 November 30, 2018, the company has complied with the recommendations of the "Government Commission German Corporate Governance Code" in the version dated February 7, 2017 (the "Code") as published by the Federal Ministry of Justice and Consumer Protection in the official section of the Federal Gazette with the following exceptions:

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

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

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

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

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

**Item 7.1.2 sentence 3:** The mandatory interim financial information is published no later than two months after the end of the reporting period and 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 adequate 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, November 26, 2019

On behalf of the Supervisory Board

Christian Stahl
Chairman of the Supervisory Board

On behalf of the Management Board

Dr. Cornelius Patt
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 https://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.

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 German Corporate Governance Code ("Code" or "GCGC") 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 plan's implementation.

The members of the Management Board in the 2019 financial year were Dr. Cornelius Patt (CEO), Andreas Grandinger, Dr. Mischa Ritter and Florian Welz. Andreas Grandinger resigned from the Management Board at the end of December 20, 2019. With effect from January 1, 2020, Andreas Maueröder was appointed as the new member of the Management Board to succeed Mr. 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 consolidated financial statements, the combined management report and the proposal for the appropriation of retained profits. The Supervisory Board adopts the zooplus AG annual financial statements and approves the consolidated financial statements subject to the results of the auditor's audit report. Included in the duties of the Supervisory Board are the appointing of Management Board members and preparing and concluding employment contracts with Management Board members.

The Supervisory Board of zooplus AG consists of six members, all of whom are to be elected by the Annual General Meeting.

In the reporting year, the Supervisory Board consisted of Christian Stahl (Chair), Moritz Greve (Deputy Chair), Karl-Heinz Holland, Ulric Jerome, Henrik Persson and Dr. Norbert Stoeck. On October 31, 2019, Karl-Heinz Holland resigned from office at his own request. With effect from November 1, 2019, Christine Cross was appointed by the court as a member of the Supervisory Board for a limited term until the end of the 2020 Annual General Meeting.

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.

In line with the recommendation in Item 5.6 of the Code, the Supervisory Board reviewed the efficiency of its activities in 2019. The efficiency review focused specifically 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 Committee is also responsible for the preparatory review of the non-financial reporting and commissions an auditor to examine this reporting, if necessary.

The Audit Committee in the reporting year included Dr. Stoeck (Chair of the Audit Committee), Mr. Greve, Mr. Holland (until October 31, 2019) and Ms. Cross (as of November 1, 2019). Dr. Stoeck has special knowledge and experience in the application of accounting principles and internal control procedures and fulfills the criterion of independence. Additionally, the members of the Audit Committee as a whole are all familiar with the sector in which the company operates.

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

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

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

- **Professional qualifications and experience:** Among the prerequisites for a seat on the Supervisory Board are first and foremost a candidate's professional qualifications and personal abilities. When proposing candidates for Supervisory Board membership, the primary criteria is the candidate's ability to perform the duties of a Supervisory Board member at an internationally operating company and to safeguard the zooplus Group's public reputation based on the candidate's knowledge, skills and professional experience.
- **International representation:** In view of the company's international orientation, it is particularly important that the Supervisory Board has a sufficient number of members possessing extensive experience in international business.
- **Avoidance of potential conflicts of interest / number of independent members:** The Supervisory Board should consist of an adequate number of independent members as defined by the Code. The Supervisory Board believes it is adequate when two members of the Board are independent members. Material and lasting conflicts of interest, for example, from holding positions in executive bodies or taking consulting roles with key competitors to zooplus AG, should be avoided. Particularly in the case of candidate proposals to the Annual General Meeting, it should be ensured that the respective candidate does not have an active management or consultancy role or is a member of a supervisory body of competitors, suppliers, lenders or customers in order to preclude any conflicts of interest. Members of the Supervisory Board should have sufficient time available to carry out their duties, ensuring that they can perform these duties with the due care and regularity required.

- **Age limit:** The Supervisory Board has ruled that its members should generally be no older than 70 years of age.
- **Defined length of service:** The recommendation of the Code to adopt a standard limit of length of service for membership in the Supervisory Board has been deviated from in order to retain the option to benefit from the expertise of long-term and experienced Board members.
- **Diversity:** The Supervisory Board's aim when composing the Supervisory Board is to enable its members to optimally execute their monitoring and advisory functions supported by the diversity of its members. Diversity primarily refers to international background, upbringing, education and career path and not nationality or diversity in the context of gender or age. This means that the composition of the Supervisory Board should appropriately reflect the diversity of an open, innovative and internationally operating company such as zooplus AG. However, it also means that no one person should be ruled out or proposed as a candidate for the Supervisory Board solely due to the fulfillment or non-fulfillment of any of the characteristics mentioned. Women should be properly taken into consideration based on their qualifications and suitability. For this reason, the Supervisory Board strives to propose an appropriate share of women candidates for election, even though the Supervisory Board is aware that the targeted, appropriate share of women on the Supervisory Board cannot be achieved immediately. Nonetheless, the Supervisory Board intends to include qualified women in its selection process and election proposals, starting with the examination of potential candidates for new appointments or as replacements for vacant Supervisory Board positions. Prerequisites 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 2019 financial year, thereby ensuring the independence of the Supervisory Board. The five independent Supervisory Board members were Mr. Stahl, Mr. Holland (until October 31, 2019) and Ms. Cross (as of November 1, 2019), Mr. Jerome, Mr. Persson and Dr. Stoeck.

In its search for a suitable Supervisory Board member to succeed Mr. Holland, the Supervisory Board paid attention to its goal of diversity and found a competent and qualified successor for Mr. Holland in Christine Cross.

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 2019 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

According to Sections 76 (4) sentence 1, 111 (5) sentence 1 AktG, targets for female representation on the Supervisory Board, the Management Board and the two management levels below the Management Board must be determined.

### 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 consists of four members. The Supervisory Board in accordance with Section 111 (5) sentence 1 AktG has decided to not stipulate a set target for female representation on the Management Board until the self-imposed deadline of October 31, 2023. The Supervisory Board is of the opinion that despite the attempt to have at least one female member on the Management Board, the candidate with the best possible qualification for the Management Board mandate must be judged according to a variety of criteria.

### Female representation in the first and second levels of management

In accordance with Section 76 (4) sentence 1 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 achieved by 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 2019 financial year just ended, there were no conflicts of interest with members of the Management Board or Supervisory Board in the carrying out of duties for zooplus AG.

## Remuneration

The Supervisory Board is responsible for determining the structure of the remuneration system as well as the remuneration of the individual members of the Management Board and regularly reviews the remuneration structure for appropriateness. Further details of the remuneration of the members of the Management Board are presented individually in the 2019 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 reporting 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 https://investors.zooplus.com/en serves as the central platform for providing the latest information on the company. The company's financial reports, presentations from analyst and investor conferences, and press and ad-hoc announcements are also available on the company's website. The key dates of recurring publications and events (such as annual reports, interim reports, the Annual General Meeting) are published well in advance.

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

## Accounting and auditing

Group accounting is 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 https://investors.zooplus.com/en.

The Management Board prepares the consolidated financial statements, and these are reviewed by the auditor and the Supervisory Board. The Munich branch office of PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, was elected as the auditor by the 2019 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 meeting of the Audit Committee on March 12, 2020, and that of the Supervisory Board on March 23, 2020, with respect to the 2019 annual financial statements and consolidated financial statements. At these meetings, the auditor reported the results of the audit of the zooplus AG annual financial statements as of December 31, 2019 (HGB) and the zooplus Group consolidated financial statements as of December 31, 2019 (IFRS) and the combined management report to the Audit Committee and Supervisory Board.

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

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

## Corporate values and compliance

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

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

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

### Code of Conduct / Supplier Code of Conduct

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

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

### Whistleblower system

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

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

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

# Non-financial Report 2019

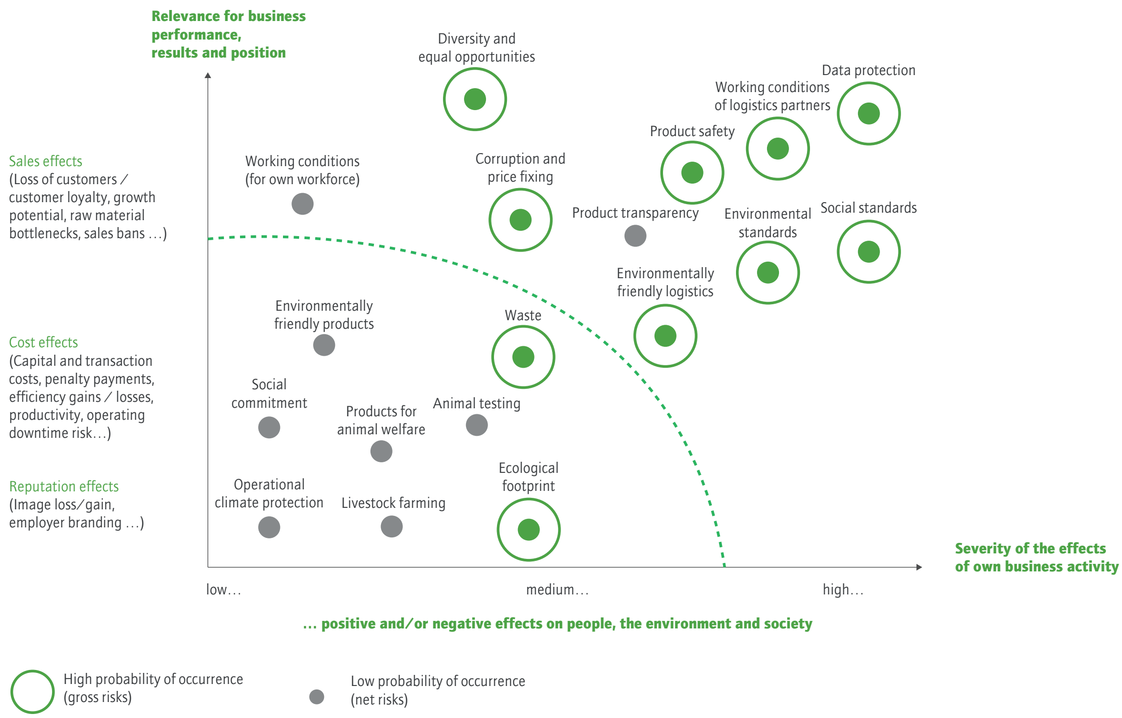
For zooplus, a successful business does not stop with the achievement of financial performance targets but also encompasses a firm commitment to society and the environment. Our understanding of sustainability is based on the conviction that we can best achieve our economic goals and consistently grow profitably by doing our part to be environmentally and socially responsible. The company therefore welcomes the European Directive 2014 ⁄ 95 ⁄ EU regarding "Disclosure of non-financial and diversity information by certain large undertakings and groups" as an important step toward the greater integration of sustainability and Corporate Social Responsibility (CSR) issues in group reporting and management across Europe.

In the following, we provide information on sustainability issues that will help better understand our business performance and the future development of our company. The separate combined non-financial report published here meets the requirements of the German CSR Directive Implementation Act (CSR RLUG) in accordance with Sections 289b (3) and 315b (3) of the German Commercial Code (HGB). The report explains the issues in the 2019 financial year in the areas of the environment, society, diversity, responsible corporate action and animal welfare that are important not only to our external target groups but also from a corporate perspective.

## Key Facts and Reporting Limits

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

Within the scope of a materiality analysis conducted during the 2018 financial year, an independent evaluation was prepared describing all of the relevant non-financial aspects for zooplus AG that are essential for sustainable business development from both a Group perspective and the perspective of the respective external target groups (customers, business partners, employees, shareholders, suppliers and the general public). The Management Board and the responsible departments took part in this evaluation. The impact of our business activities and the impact on our business performance are presented in the diagram below and also continue to fully apply to the year 2019:




The materiality analysis and the corresponding risk assessment were prepared in compliance with the requirements of the CSR Directive Implementation Act (CSR-RLUG).

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

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

The non-financial report for the 2019 financial year was reviewed by the zooplus AG Supervisory Board. On behalf of the Supervisory Board, the auditing company PricewaterhouseCoopers GmbH WPG audited this non-financial report in accordance with the ISAE 3000 (Revised) audit standard with limited assurance. For more information, please refer to the audit opinion starting on page 34 of the Annual Report.

For the presentation of the material risks required by the CSR Directive Implementation Act, a mixed analysis of gross and net risks was chosen. To the extent that they are material, the potential negative effects of zooplus AG's business activities on non-financial matters (gross risks) are explained for each situation. The approach pursued and presented here by zooplus AG for avoiding and minimizing these effects has led to the conclusion that there were no non-financial (net) risks for the company during the course of the 2019 financial year as defined by the CSR Directive Implementation Act.

## Business Model

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

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

## Environmental Issues

### Environmental Standards in the Supply Chain

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

The raw material palm oil is used as a high-quality fat source for the production of animal feed. The share of palm oil from sustainable cultivation in the animal feed sector has increased from 15 % in 2015 to 26 % in 2017.[1] The excessive catching of fish – a common ingredient in pet food – has also been connected with a long-term adverse effect on ecosystems. The same applies to the raw material wood, which is processed primarily for pet accessories. In light of this, we have made it our goal to contribute to the conservation of resources by procuring our materials responsibly.

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

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

In the 2019 financial year, the Supplier Code of Conduct was a component of all supplier contracts concluded with direct domestic and international suppliers. About 95 % of the procurement volume stems from Europe. Other sourcing countries include mainly Canada, China and Thailand.

[1] https://www.forumpalmoel.org/imglib/Palmoelstudie%202017_Meo_FONAP_ho.pdf

## Environmentally Friendly Logistics

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

For this reason, and for reasons of cost efficiency, zooplus employs its own team exclusively for the coordination and further development of the logistics and distribution structure. To minimize procurement channels and reduce the associated $CO_2$ emissions, zooplus has launched a pilot project to develop direct procurement methods together with a few selected suppliers. In the 2019 financial year, about one-third of the goods were procured from the suppliers participating in this pilot project, resulting in shorter transport distances and lower greenhouse gas emissions. zooplus plans to continue expanding this project in the years ahead. The optimal flow of goods and speed of delivery are decisive in improving process efficiency and increasing customer satisfaction, which also makes them critical drivers of business success. Merchandise management and inventory management are both handled by the company's own proprietary systems. The European-wide dispatch to the customer takes place over domestic and international parcel services. zooplus does not utilize its own infrastructure to deliver packages to customers but instead works together with relevant service providers. Together with these services providers, zooplus works to continually maximize the efficiency of its logistics centers and improve the flow of goods.

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

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

A major driver of the $CO_2$ intensity in the mail-order business tends to be the high proportion of returned goods that need to be transported from the customer back to the retailers' logistics centers. Unlike online retailers in other segments, however, zooplus AG is hardly affected by returns due to its product mix. Size and the individual tastes of customers play a minor role in the purchase of pet food and pet supplies. In the 2019 financial year, as in previous years, the return rate at zooplus was at a very low level of 1 %.

As an innovative and disruptive company, zooplus strives to reduce its $CO_2$ emissions and to help customers do the same by purchasing the goods at zooplus rather than purchasing through traditional procurement channels. For this purpose, a team of employees from various departments was formed in 2018 to develop a Carbon Footprint Action Plan that includes short-, medium- and long-term measures for recognizing and reducing $CO_2$ emissions. As part of this project, it was determined that the internationally recognized Greenhouse Gas Protocol would be the method used to record the carbon footprint along the zooplus value chain. A particular focus of this project team over the past financial year was the recording of greenhouse gas emissions caused by inbound and outbound logistics, as well as the processing of parcels in the logistics centers. Alongside optimizing the variables we can influence, we also communicate actively with our existing service providers. When selecting new service providers, we pay explicit attention to their approaches to climate-friendly logistics.

[2] https://www.sciencedirect.com/science/article/pii/S0959652614006489

[3] International Energy Agency 2017; available at:
http://www.indiaenvironmentportal.org.in/files/file/CO2EmissionsfromFuelCombustionHighlights2017.pdf

## Animal Welfare

### Product Safety

Alongside the growing "humanization" of pets, one issue gaining in importance is the quality and safety of pet food and accessories. Pets are often given the same status as other family members, and similarly, their health depends on a balanced diet free from residues and contaminants. It is our aim to ensure our products undergo quality assurance checks to confirm that pet food is not contaminated as a result of unsuitable preservatives, heavy metals, microorganisms or toxins. The same applies to accessories lacking product safety standards, which can have serious implications for animal welfare.

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

zooplus uses its own employees to mitigate any product safety risks that can arise from improper storage, packaging or shipping. These employees are posted at the service operators' fulfillment centers to ensure that all quality assurance standards are complied with. These standards are laid out in the contracts we have with our logistics partners. zooplus has also set up clearly defined recall procedures when product safety risks are discovered in products already in circulation. In the 2019 financial year, there were no recall campaigns of our private label products. Supplier-initiated product recalls from well-known brand manufacturers are managed in accordance with processes defined by zooplus.

At zooplus, animal welfare also includes the support of selected animal welfare organizations and animal protection organizations. zooplus enables its customers to donate the bonus points acquired for their zooplus purchases to selected animal organizations. In 2019, approx. 330 thousand customers took part in this campaign and donated a total of more than 40 million bonus points to a number of different organizations. zooplus also sells a special private label under the name "zoolove," where 10% of sales are donated to selected animal welfare organizations. Within the scope of the 2019 Christmas campaign, fundraising was expanded to include other zooplus private labels. zooplus highlights different animal welfare organizations in different countries regularly giving zooplus customers an opportunity to vote for their favorites. In 2019, the zooplus charity brand donated over EUR 430,000 to several animal welfare organizations. In honor of the company's 20-year anniversary, zooplus also donated an additional EUR 150,000 to a selected international animal protection organization.

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

## Social Welfare

### Product Transparency

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

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

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

## Employee Welfare

### Working Conditions

The number of employees has risen steadily in the past several years. In the 2019 financial year, an average of 713 employees worked directly for zooplus. The number of employees has increased on average by around 20% annually since 2012. zooplus' business success largely depends on the commitment, knowledge and performance of its employees. zooplus invests in a work environment that promotes innovation, team spirit, commitment and motivation so that it is able to attract and retain qualified employees. This also benefits the employees themselves in that they can personally develop their skills at zooplus through individual advanced training courses and participate in the company's success through variable salary components.

The employees of zooplus' logistics partners, who are sometimes exposed to greater physical strain, also make an important contribution to the business success. These include, for example, packaging and the lifting of heavy goods. The fulfillment centers operated by zooplus' partners employed roughly 2,700 employees in the 2019 financial year. In contrast to the employees directly employed by zooplus, these employees are typically in the low-wage segment. The same applies to the employees of logistics service providers. In order to ensure the best possible working conditions for the employees of logistics partners within the scope of zooplus' power, the company works with these service providers on the basis of long-term contracts with minimum employment-related requirements. In addition to occupational health and safety regulations, these requirements also include the payment of the country's respective minimum wage. The quality managers in the fulfillment centers employed by zooplus are also asked to pay particular attention to the occupational health and safety of the local employees. To make heavy physical work easier, zooplus and its partners in the fulfillment centers regularly test the introduction of digital and mechanical work facilitation for lifting heavy goods, among others.

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

zooplus has invested in the expansion and modernization of its office facilities to create a work environment that is just as employee-friendly as it is performance-oriented. In addition to leasing additional office space with state-of-the-art equipment, the acoustics and visual design of existing premises were also improved. To promote the health of the employees, zooplus takes preventive measures by offering flu shots, eye examinations, and ergonomic office equipment, as well as access to fitness centers for all employees, which is largely subsidized by the company.

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

Part of the zooplus DNA and the company's pet policy is to provide employees with certain opportunities to bring their dogs to work. Employees also benefit from in-house discounts when purchasing zooplus products.

The employee turnover rate at zooplus in the past financial year was 16.4 %, three percentage points lower than in the prior year.

zooplus also welcomes employee initiatives and provides the necessary flexibility for employees, including meet-ups for networking across sectors within the IT community and the internal "Go Green" initiative that promotes environmentally friendly design in everyday settings. Integrating voluntary activities during team events, for example, is also important at zooplus.

### Diversity and Equal Opportunity

zooplus saw the importance of diversity within the scope of human resources as a key success factor very early and, consequently, defined strong company diversity as one of its objectives. The interaction of people with different ideas, strengths, skills and cultural backgrounds leads to the best possible solutions to future challenges. As of December 31, 2019, zooplus had 56 different nationalities across all locations. With an average age of 35 years (as of December 31, 2019), zooplus employees tend to be younger than employees at other traditional retailers.

Diversity is an integral part of zooplus' corporate culture and has been incorporated into all personnel development and recruitment measures as a priority of the company's personnel strategy. The fair balance of female and male employees has thus far made the formulation of definite quota targets seem unnecessary. Despite this, the company has stated in its Code of Conduct that any form of employee or occupational discrimination will not be accepted. Instead, recruitment and promotion decisions are based solely on an individual's abilities and not on personal characteristics such as gender, race, religion or belief. zooplus employees also address a variety of diversity areas within the scope of their own initiatives. As part of the company's "Culture Days", intercultural exchange is promoted to encourage cooperation. In the IT community, zooplus employees also work to increase the share of female IT specialists in the industry by getting involved in campaigns related to the topic of "women in IT".

The proportion of female employees in the company was 45 % as of December 31, 2019. In keeping with the guiding principle of diversity, the company will continue to focus on ensuring that women are represented as equally as possible in management positions in the future. As of December 31, 2019, at zooplus AG and across all zooplus companies the proportion of female employees in management positions below the Management Board averaged 33 %.

## Respect for Human Rights

### Social Standards

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

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

In the years ahead, the company plans to increase its attention on the issue of social audits and involve external partners in the process.

## Combating Bribery and Corruption

### Corruption and Price Fixing

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

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

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

### Data Protection

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

Legal compliance with data protection regulations, directives and procedural instructions is ensured using a dual approach consisting of an internal data protection manager, as well as an external data protection officer. In the course of fully implementing the General Data Protection Regulation (GDPR) in 2018, zooplus made it a priority to optimize internal structures and revise the zooplus data protection directive, which must be followed by all employees. Our external data protection officer is also obliged to train employees at regular intervals. When an incident occurs, it is carefully investigated. zooplus is also supported by external service providers who securely manage the payment data and have the corresponding PCI conformity certifications.

In 2019, no formal proceedings by the data protection authorities against zooplus were initiated, and requests from data protection authorities could be answered by statements and possible adjustments. With the introduction of the GDPR in 2018, zooplus, together with an external partner, had its data protection processes audited to ensure that the processes continue to meet all of the relevant requirements for protecting data as best as possible.

# Independent Practitioner’s Report on a Limited Assurance Engagement on non-financial Reporting[1]

To zooplus AG, München

We have performed a limited assurance engagement on the separate combined non-financial report pursuant to §§ (Articles) 289b Abs. (paragraph) 3 and 315b Abs. 3 HGB ("Handelsgesetzbuch": "German Commercial Code") of zooplus AG, München, (hereinafter the “Company”) for the period from 1 January to 31 December 2019 (hereinafter the “non-financial report”).

## Responsibilities of the Executive Directors

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

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

## Independence and Quality Control of the Audit Firm

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

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

## Practitioner's Responsibility

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

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

We conducted our assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised): Assurance Engagements other than Audits or Reviews of Historical Financial Information, issued by the IAASB. This Standard requires that we plan and perform the assurance engagement to allow us to conclude with limited assurance that nothing has come to our attention that causes us to believe that the Company’s non-financial report for the period from 1 January to 31 December 2019 has not been prepared, in all material aspects, in accordance with §§ 315c in conjunction with 289c to 289e HGB.

[1] PricewaterhouseCoopers GmbH has performed a limited assurance engagement on the German version of the separate combined non-financial report and issued an independent assurance report in German language, which is authoritative. The following text is a translation of the independent assurance report.

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

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

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

## Assurance Conclusion

Based on the assurance procedures performed and assurance evidence obtained, nothing has come to our attention that causes us to believe that the Company's non-financial report for the period from 1 January to 31 December 2019 has not been prepared, in all material aspects, in accordance with §§ 315c in conjunction with 289c to 289e HGB.

## Intended Use of the Assurance Report

We issue this report on the basis of the engagement agreed with the Company. The assurance engagement has been performed for purposes of the Company and the report is solely intended to inform the Company about the results of the limited assurance engagement. The report is not intended for any third parties to base any (financial) decision thereon. Our responsibility lies only with the Company. We do not assume any responsibility towards third parties.

Munich, 23 March 2020

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Hendrik Fink
Wirtschaftsprüfer
German public auditor

ppa. Barbara Wieler

# 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 2019, the European market for both online and brick-and-mortar retailers reached gross sales of EUR 30 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 1999, it has successfully used the Internet as a platform for selling pet supplies. Over the past several years, zooplus has been continually expanding its business activities. Some of the key milestones the company has achieved on this dynamic growth path include broadening the product portfolio, penetrating new European markets through early targeted international expansion, completing its initial public offering in 2008 and the company's subsequent inclusion in the SDAX index. In 2017, zooplus' sales significantly surpassed EUR 1 bn for the first time. In 2019, zooplus AG celebrated its 20th anniversary and generated sales of over EUR 1.5 bn.

### International presence

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

Products are shipped to customers from seven large central logistics hubs in Hörselgau, Germany; Tilburg, the Netherlands; Wroclaw and Krosno Odrzanskie, Poland; Chalon-sur-Saône, France; Antwerp, Belgium; and Coventry, Great Britain. In addition, medium-sized, more specialized fulfillment centers located in Mühldorf, Germany; Cabanillas del Campo, Spain; Stradella, near Milan, Italy; and Jirikov, Czechia, are taking over certain types of orders for individual markets, to maintain an increasingly comprehensive logistics infrastructure that is even closer to the customer. In view of the company's planned further growth, zooplus AG will continue to expand the existing logistics capacities in the coming years to map its planned growth logistically and further improve the speed of delivery to the customer.

Experience has shown the importance of having a localized Internet presence – and customers have grown to expect this. zooplus AG operates regional websites in the local languages of 24 different countries throughout Europe, offering a broad range of regionally oriented pet products. Next to the company's website and its comprehensive range of around 8,000 products, zooplus operates under its bitiba brand based on a discount concept offering a narrower range of products in 14 countries alongside the zooplus brand. zooplus' overall vision is to increasingly add more pet services going forward. In some regional markets, for example, the company has already set up an extensive search portal to find veterinarians and animal shelters. zooplus also cooperates with companies offering pet insurance.


■ Country market supplied by zooplus

Year of market entry

* 2005 (Luxembourg)

**2008 (Liechtenstein)

## The zooplus value chain

2019 was again a year in which zooplus AG achieved double-digit sales growth. Going forward, the company's growth strategy will continue to focus on systematically penetrating existing international markets. With operations in 30 countries, zooplus AG covers nearly the whole of Europe and intends to keep Europe at the center of its activities.

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

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

## Human resources

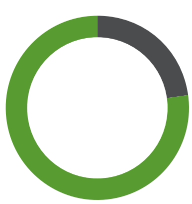
zooplus firmly believes that its success largely depends on the commitment, knowledge and performance of its employees. This is why the company invests consistently in creating a work environment that encourages innovation, team spirit, commitment and initiative. The Human Resources Department employs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

Further information on Human Resources can be found in our non-financial report starting on page 26.

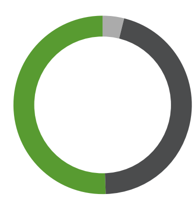
## Procurement and product range

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 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 suppliers and their affiliates (suppliers, factories and approved subcontractors) must meet in order to conduct business with zooplus AG and its associated companies.

Further information on our procurement and product range can be found in our non-financial report starting on page 26.

**zooplus served over 7 million active customers in 2019. A compelling product range, competitive prices and reliable, fast delivery ensured by a high-performance infrastructure. Based on these pillars, zooplus consistently expanded its position as the clear market leader in the online retailing of pet supplies in Europe in the reporting year.**

## Private label business

zooplus augments its product range in key areas with its continually evolving private label strategy. The company sells an exclusive range of its own private label brands offering customers a compelling range of products. This range includes premium dry and wet foods for dogs and cats under the Concept for Life, Wolf of Wilderness, Wild Freedom, Purizon, Rocco, Cosma, Lukullus and Feringa brands, as well as the company's other private brands (Briantos, My Star, Smilla, Tigerino and others). The company places special strategic importance on consistently differentiating products within existing private label brands to create robust, long-term core brands. The products and brands already launched have received a high level of acceptance from customers and increase customer loyalty. Private labels play a prominent role in the company's overall strategy. In the 2019 financial year, private label products continued to grow at an above-average rate making a contribution to sales of more than EUR 200 m and rising to a share roughly 16% of total sales of food and litter. In addition to private label pet food and cat litter, zooplus also sells pet accessories, such as cat scratching posts, dog beds and toys created especially for zooplus. In the years ahead, the company expects the growth of its private label business to continue to outpace other areas which, at the same time, further strengthens our differentiation to other providers. Over the medium term, the higher-margin private label business is expected to develop into a powerful driver of the company's gross margin as the majority of the margin advantage is being reinvested into the continued expansion of zooplus' private label brands.

## Private label portfolio

### Dogs

**Wet food and snacks**
Premium food made of 100 % fresh meat for breed-specific diets

**Dry and wet food and snacks**
Natural foods for discerning dogs: natural menus, diverse ingredients, manufactured in a conscientious manner

**Dry and wet food and snacks**
Wild and free! Breed-appropriate, grain-free pet food inspired by the wolf's natural diet

**Dry food**
American style dog food: Grain-free dry dog food with multiple types of protein and fresh US beef

**Dry food and snacks**
The right food for all stages of life and nutritional needs: "made in Germany", offering superior value for money

**Snacks**
Experts in snacks: A large selection of highly popular snacks for entertainment, grooming or as a reward, featuring the best value for money

**Snacks**
Dog snacks offering unbeatable value for money

**Wet food**
Organic dog food with raw ingredients from certified local organic farms and the humane treatment of animals

**Wet food**
Exclusively made of pure muscle and quality innards for a juicy, meaty taste, made in Germany

**Wet food**
Select ingredients and premium meat, with recipes adapted to the dog's particular life phase

## Cats

Tigeria

Wet food and snacks
Cereal-free premium cat food with surprising, balanced recipes and varied ingredients

COSMA PURE LOVE

Wet food and snacks
High-premium food made of 100 % fresh meat for breed-specific diets

Smilla FOOD FOR A LIFETIME

Dry and wet food and snacks
Premium food "made in Germany" ideal in every stage of life

Catessy YUMMMMEOW!

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 and snacks
Wild and free! Pet food inspired by the wildcat's natural instincts

## Dogs and Cats

CONCEPT FOR LIFE

Dry and wet food
With Concept for Life, dogs and cats receive nutrition optimally adjusted for their lifestyle, age and special needs. Tailored to life! Now available as Vet-Line!

Purizon Nature is our Inspiration

Dry food and snacks
High-premium nutrition containing 70 % choice ingredients, 30 % fruits and vegetables and is grain-free

GREENWOODS

Dry and wet food, snacks and litter
Hypoallergenic pet food with the best ingredients for a breed-specific diet

zoolove

Food, snacks and accessories
Helping can be so simple: 10 % of the purchase price of the zoolove products is donated for the benefit of animals in need

ROSIE'S FARM

Wet food and snacks
Wholesome, cereal-free dog and cat food for a varied and balanced diet at any ager

## Logistics

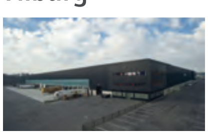
zooplus AG has central logistics centers in Hörselgau, Germany; Tilburg, the Netherlands; Wroclaw and Krosno Odrzanskie, Poland; Chalon-sur-Saône, France; Antwerp, Belgium; and Coventry, Great Britain. The company also has medium-sized, more specialized fulfillment centers in Mühldorf, Germany; Cabanillas del Campo, Spain; Stradella, near Milan, Italy; and Jirikov, Czechia. These locations are taking over certain types of orders for individual markets, which ensures an increasingly comprehensive logistics infrastructure with even closer proximity to the customer. The smaller logistics site in Jirikov, Czechia, which specializes in non-prescription veterinary medicines, handles the shipment of selected items to certain target markets. The primary locations are operated in cooperation with four internationally active logistics partners, who are responsible for the operational handling of fulfillment. The investment costs for the construction of the logistics centers are borne almost entirely by the logistics partners. The remuneration of the logistics partners is largely variable, based on the quantities processed. All logistics centers work within a tight-knit production network, which is a major driver of efficiency.

Even though the logistics operations have been outsourced, all core fulfillment processes are still managed centrally by zooplus AG and represent proprietary expertise. The company employs a designated in-house team to coordinate and develop the logistics and distribution operations. Seamless material flows, packaging efficiency, quality and speed of delivery of the respective package are seen as decisive leverage factors for improving cost efficiency and maximizing customer satisfaction – two elements centrally 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.

Unlike 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

❶ **Tilburg**

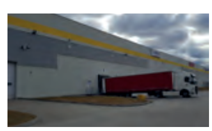


34,000 m²

❷ **Hörselgau**

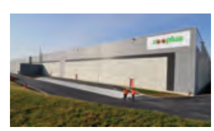
30,000 m²

❸ **Wroclaw**



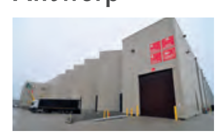
27,000 m²

❹ **Chalon-sur-Saône**



21,000 m²

❺ **Antwerp**



16,000 m²

❻ **Coventry**

15,000 m²

❼ **Mühldorf**

5,000 m²

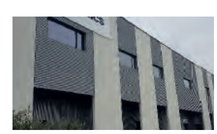
❽ **Stradella**

11,650 m²

❾ **Krosno**

42,000 m²

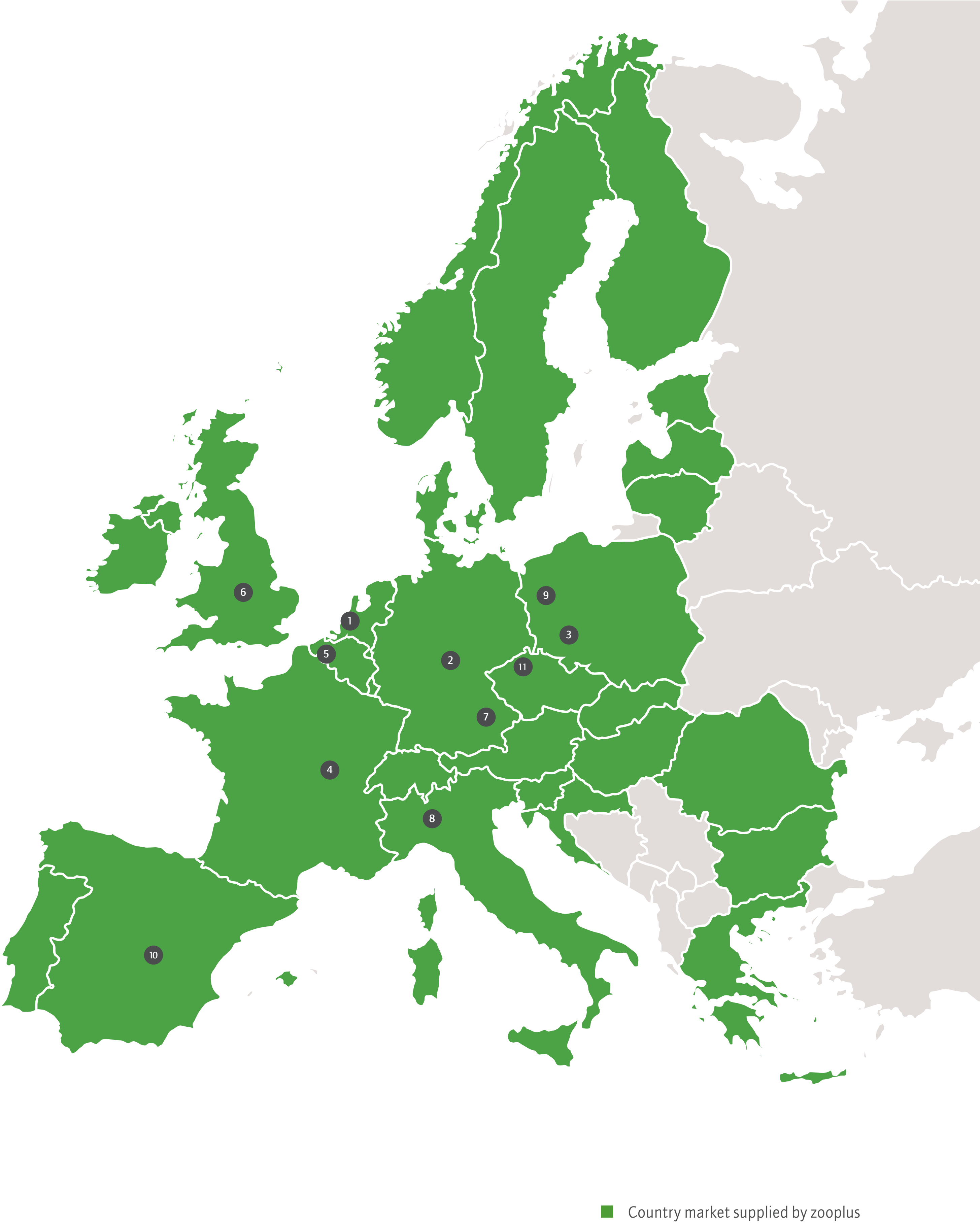
❿ **Cabanillas del Campo**



8,300 m²

⓫ **Jirikov**

2,500 m²



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Country market supplied by zooplus

## Technological infrastructure

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

zooplus AG is a technology-oriented Internet retailer. The new and ongoing development of core processes and other systems important for the business model is initiated almost exclusively in-house and carried out on a proprietary basis or with external help. zooplus AG has significantly expanded its internal development capacities for this purpose in recent years. The aim is to quickly create customized and highly flexible solutions for a scalable business model. External partners are always employed to augment the company's internal expertise and implementation capacity when in-house expertise is insufficient or unavailable. The company also uses standardized SAP software solutions in back office areas such as accounting.

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

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

A smooth and reliable link to domestic and international payment systems is immensely important 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 further expanding the business. zooplus customers can access the online shop via their desktop, tablet or smartphone or by using the zooplus app. Having these options, zooplus is well equipped to handle the growing share of sales via mobile platforms and intends to continue investing in expanding its mobile platforms. In 2019, more than 35 % of purchases were conducted via mobile platforms – and roughly 14 % of those over the zooplus app. The prime focus for acquiring new customers is online marketing because the Internet is where the potential customers are and where they have easy, direct access to zooplus. The spectrum of classic online advertising, search engine marketing and optimization through affiliate networks, price comparisons and sector-specific online activities offer sufficient online marketing options. The company also employs a wide variety of social media channels, such as Facebook, Twitter, Instagram and YouTube. In the 2019 financial year, the company also started marketing activities aimed at increasing consumer awareness of the zooplus brand. The branding initiatives began with the 20th anniversary of zooplus. 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. In light of the fact that business with new customers is growing at the same time, zooplus AG appears much more effective at acquiring customers than its competitors.


**A user-friendly shopping experience across all devices – desktop, laptop, tablet and smartphone**

These efforts attracted a total of around 3 million new customers in 2019. Customer acquisitions are expected to remain high or increase even more to support the projected growth. It is not only important how many new customers are acquired but also how many of these new customers will go on to become long-term repeat customers. To promote repeat business, it is crucial that relationships with existing customers are maintained and that they receive outstanding service. zooplus AG's commercial success is ultimately based on turning new customers into satisfied repeat customers and establishing itself in the minds of these customers as the preferred supplier of pet products. The high sales retention rate of loyal customers – driven by the recurring need for pet food – is a major source of long-term business success. In 2019, zooplus AG achieved a currency-adjusted sales retention rate of 91 %. 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

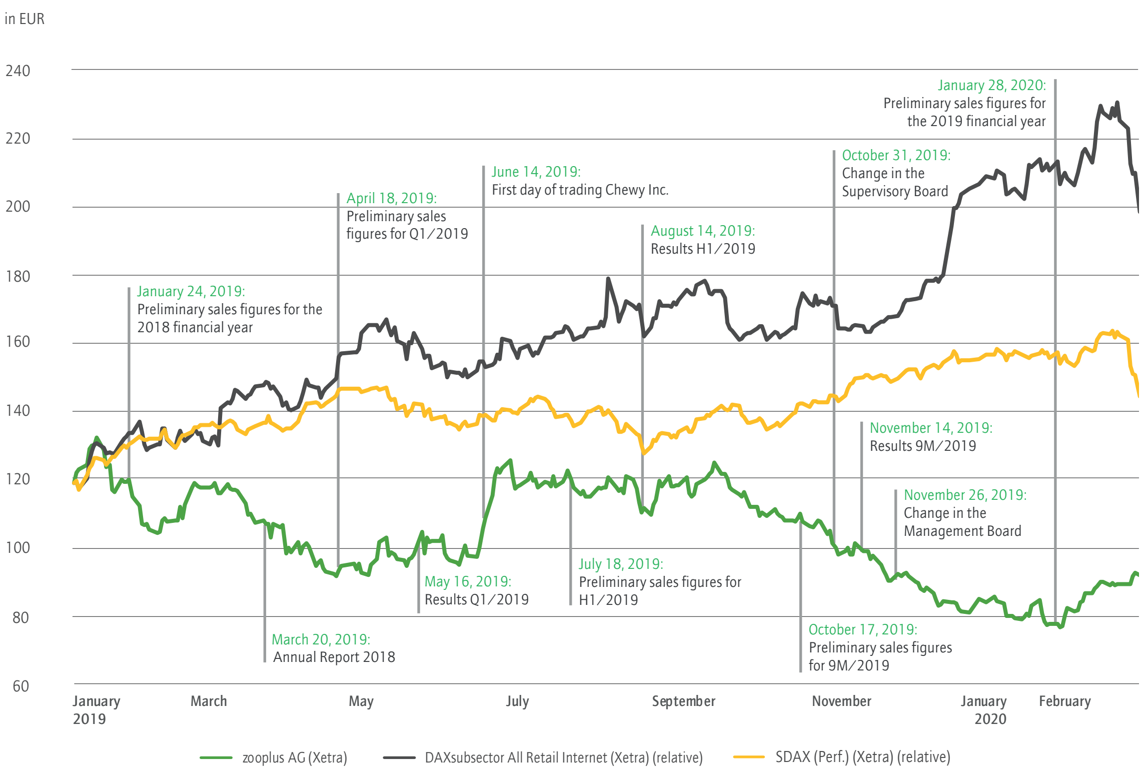
The company strives to maintain its position as the unmistakable quality and service leader among competitors in terms of customer satisfaction and continuously enhances its range of products and services. zooplus carries out extensive routine customer surveys and relies on independent studies to confirm the high level of customer satisfaction with zooplus AG's offers. zooplus AG has also received an online shop award for its web presence in Italy and the Netherlands.

## Summary

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

# The zooplus AG share

### Stock chart zooplus AG: January 2, 2019 to February 28, 2020




Source: www.ariva.de

## 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.

### 2019/20 Share performance

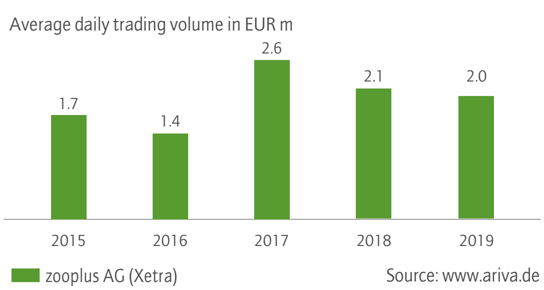
The year 2019 was a positive year overall on the German stock market. One factor contributing to this performance was the beginning of a de-escalation in the trade conflict between the USA and China in the second half of the year. The capital markets in Europe also welcomed the agreement between the Italian government and the EU on the Italian draft budget for 2020, as well as the Brexit agreement negotiated by the EU and British Prime Minister Johnson. These events also provided support to the German DAX (+25.5 %), MDAX (+31.2 %), SDAX (+31.6 %) and TecDAX (+23.0 %) indices, which all recorded strong performance in 2019 compared to their year-end level on December 28, 2018. The DAXsubsector All Retail Internet, the sector index relevant for zooplus AG, also developed positively in 2019, with a gain of 75.1 % compared to the end of 2018. zooplus shares closed Xetra trading on December 30, 2019, at a year-end price of

EUR 85.40. Compared to the closing price on December 28, 2018 (EUR 118.90), the share had fallen by 28.2 % over the past year and underperformed the SDAX index, of which zooplus is a component. At the beginning of 2019, the zooplus share price began to rise and temporarily traded at around EUR 130.00. On January 10, 2019, zooplus shares reached their high for the reporting year, closing on Xetra at EUR 132.20. In March, the company published its financial results for the 2018 calendar year and issued its guidance for sales and earnings in 2019. The market's reaction to this guidance put pressure on the share price, which temporarily fell well below its 2018 year-end closing price. Alongside the successful IPO on the New York Stock Exchange of zooplus' US peer Chewy Inc., an online retailer for pet supplies, the zooplus share price also rose significantly during the month of June. In the remainder of the year, however, zooplus shares came under renewed pressure and reached their low for the reporting year at a closing price of EUR 81.00 on December 20, 2019.

## Capital measures and market capitalization

At the beginning of 2019, zooplus had a total of 7,143,278 shares. This number increased during the course of the year following the exercise of stock options and reached 7,146,688 as of December 31, 2019. As a result, zooplus ended the 2019 financial year with total share capital of EUR 7,146,688.00. Based on the Xetra closing price of EUR 89.90, zooplus AG's market capitalization at this report's editorial deadline on February 28, 2020 amounted to EUR 642.5 m.

### zooplus share liquidity in 2019 close to prior-year level




In 2019, the average daily trading volume in zooplus shares on the Xetra trading platform was close to the prior year's level, placing it for the third consecutive year at a range of EUR 2.0 m or more.

### Key data

| | |
|---|---|
| WKN | 511170 |
| ISIN | DE0005111702 |
| Ticker symbol | ZO1 |
| Trading segment | Regulated market (Prime Standard) |
| Class of shares | No par-value ordinary bearer shares |
| Share capital in EUR as of December 31, 2018 | 7,143,278.00 |
| Share capital in EUR as of December 31, 2019 | 7,146,688.00 |
| Number of shares as of December 31, 2019 | 7,146,688 |
| Initial listing | May 9, 2008 |
| Initial issue price* | EUR 13.00 |
| Share price as of December 28, 2018 | EUR 118.90 |
| Share price as of December 30, 2019 | EUR 85.40 |
| Percentage change (since December 28, 2018) | – 28.2 % |
| Period high | EUR 132.20 |
| Period low | EUR 81.00 |

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 is available for all those interested. To provide even greater access to information, the company holds conference calls and webcasts with the publication of its quarterly results. Following these events, the public is given access to the corresponding documents on the zooplus website under the investor relations section.

In 2019, the Management Board participated in 17 investor conferences in Germany and abroad in the scope of its involvement in investor relations activities. The Management Board also held roadshows in New York, Seattle and Los Angeles among other places. zooplus also hosted a Capital Markets Day in London on March 20, 2019.

The Management Board and investor relations representatives were also available to investors and analysts to answer questions and for one-on-one discussions. Analysts and research departments at a total of 12 banks currently provide regular coverage of zooplus AG.

## Investor Relations contact

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80331 Munich
Germany

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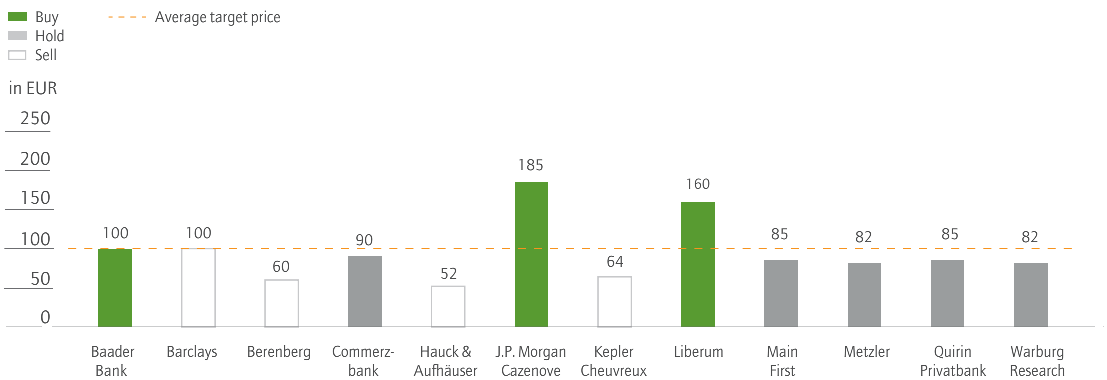
Fax: +49 89 95 006 503
E-Mail: ir@zooplus.com
Web: investors.zooplus.com

## Analysts

### Analyst recommendations for zooplus AG as of February 28, 2020




### Latest updates

| Institution | Analyst | Latest update |
|---|---|---|
| Baader Bank | Bosse, Volker | January 28, 2020 |
| Barclays | Rao, Alvira | January 28, 2020 |
| Berenberg | Letten, James | January 28, 2020 |
| Commerzbank | Riemann, Andreas | January 28, 2020 |
| Hauck & Aufhäuser | Salis, Christian | February 13, 2020 |
| J.P. Morgan Cazenove | Olcese, Borja | January 28, 2020 |
| Kepler Cheuvreux | Mauder, Nikolas | January 29, 2020 |
| Liberum | Brown, Wayne | November 14, 2019 |
| MainFirst | Sittig, Tobias | January 28, 2020 |
| Metzler | Diedrich, Tom | January 30, 2020 |
| Quirin Privatbank | Marinoni, Ralf | January 28, 2020 |
| Warburg Research | Kleibauer, Thilo | January 29, 2020 |

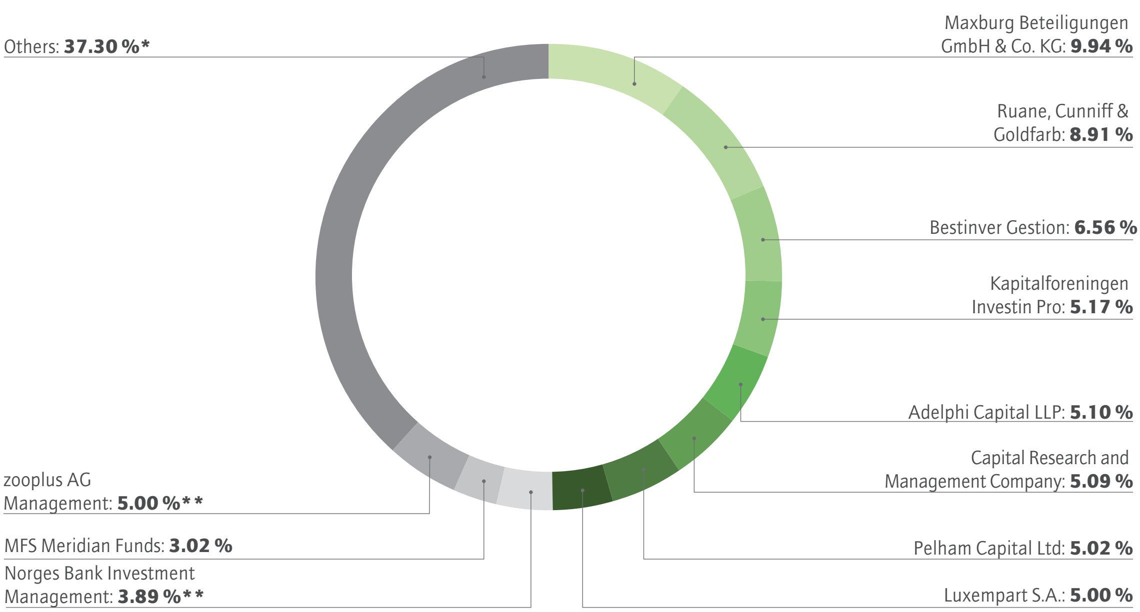
## Annual General Meeting

The Annual General Meeting of zooplus AG was held in Munich on June 14, 2019. A total of 62.87 % of the voting capital was represented. The CEO of zooplus AG, Dr. Cornelius Patt, described the business development during the 2018 financial year to the shareholders and emphasized zooplus' strong position in the market for pet supplies. The items on the agenda of the Annual General Meeting included the following:

- The resolution on the discharge of the Management Board for the 2018 financial year
- The resolution on the discharge of the Supervisory Board for the 2018 financial year
- The election of the auditor and group auditor for the 2019 financial year

The proposed resolutions were adopted by the Annual General Meeting and PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft was elected as the auditor of the financial statements and consolidated financial statements for the 2019 financial year.

## zooplus shareholders




As of February 28, 2020
Calculation of interests based on the total number of voting rights of 7,146,688.
Share ownership according to published voting rights notifications.

*Free float of 90.06 % according to the definition of Deutsche Börse.
**Including equity instruments.

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

## Shareholder structure

The zooplus AG share free float according to the definition of Deutsche Börse is currently 90.06 %. There were some changes to the zooplus AG shareholder structure during the 2019 financial year. MFS Meridian Funds, USA, emerged as a new investor with a position above the reporting threshold of 3 %, Kapitalforeningen Investin Pro, Denmark, as a new investor with a position in excess of 5 %. Bestinver Gestion, Spain, Adelphi Capital, Great Britain, and Luxempart, Luxembourg, each increased their positions to above the reporting threshold of 5 %. The shareholdings of Templeton Investment Counsel and Invesco, Bermuda, each fell below the reporting threshold of 3 %.

## 2020 Financial Calendar

| | |
|---|---|
| May 14, 2020 | Publication of the 2020 Q1 Report |
| June 25, 2020 | 2020 Ordinary Annual General Meeting |
| August 18, 2020 | Publication of the 2020 Half-Year Report |
| November 17, 2020 | Publication of the 2020 Nine-Month Report |

## Combined management report


| | |
|---|---|
| 58 | Business report |
| 72 | Report on outlook, risks, and opportunities |
| 78 | Key features of the internal control system and risk management system relating to (Group) accounting processes |
| 79 | Remuneration report |
| 87 | Takeover-related information |
| 91 | Statement on corporate governance |
| 91 | Non-financial statement |
| 91 | General statement |

# Combined Management Report for zooplus AG and the Group

**2019 Financial Year**

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

## 1. Business report

### A. Business performance and economic environment

*a. Group structure and business activities*

**i. Business divisions**

zooplus AG, the parent company of the Group, was founded in Munich in 1999. The Group operates in the e-commerce segment as a web-based retailer of pet supplies to private end consumers. The zooplus Group is the market leader[1] 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 the pet supplies category in Europe.

Altogether, zooplus offers customers roughly 8,000 different food and accessory products for dogs, cats, small animals, birds, fish and horses. These products include everyday staples, such as brand name foods generally available at specialty retailers; zooplus' private labels; specialty articles, like toys, care, and hygiene products; and other accessories. The majority of sales are 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 in Hörselgau, Germany; Tilburg, the Netherlands; Wroclaw and Krosno Odrzanskie, Poland; Chalon-sur-Saône, France; Antwerp, Belgium and Coventry, Great Britain. The medium-sized, more specialized fulfillment centers in Mühldorf, Germany; Cabanillas del Campo, Spain; Stradella near Milan, Italy and Jirikov, Czechia, take on certain types of orders for individual markets, which ensures an increasingly denser logistics infrastructure and provides even better proximity to customers. At the end of the 2019 financial year, the fulfillment center in Istanbul, Turkey, discontinued operations after zooplus decided to end its activities in the Turkish market.

Combined, the logistic center locations ensure fast, efficient and flexible delivery, in addition to a high degree of general product availability for customers across Europe. zooplus will continuously expand its logistics network as the basis for the continued growth planned in the years to come. "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, a competitive pricing model and an efficient flow of goods with simple and convenient handling.

[1] According to own assessment, based on the analysis of financial reporting and publications of the most important competitors in the European market.

### ii. Markets

zooplus operates in 30 countries across Europe through a variety of localized and cross-national online shops. According to management estimates of zooplus AG, the total market volume in Europe for the year 2019 in the pet sector was around EUR 30 bn (gross).[2] zooplus is Europe's online market leader[1] in the pet supplies category in terms of sales and active customer base. The company also believes that, in absolute terms, it is clearly the fastest growing company in its sector.

As of March 2020, the company operated a total of 24 localized online shops under the zooplus store brand. In addition to the high-volume markets of Germany, France, the United Kingdom, the Netherlands, Spain, Italy and Poland, the company also operates online shops in Belgium, Denmark, Finland, Ireland, Croatia, Austria, Romania, Slovakia, Switzerland, Slovenia, Sweden, Czechia, Hungary, Portugal, Bulgaria, Norway and Greece. This effectively makes zooplus the sector's dominant provider of pet products in the online segment across Europe by a substantial margin compared to smaller local and national competitors.

Next to its zooplus store brand, the Group operates under its bitiba brand, which is a discount concept with a limited range of products 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

The European pet supplies market currently comprises a total gross market volume of approximately EUR 30 bn.[2]

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 greatest factors differentiating the individual bricks-and-mortar retail concepts for pet supplies are the product range and product positioning. While large-scale supermarkets and discounters usually limit themselves to a product range of approximately 150 to 200 smaller, typically lower-priced pet food products, larger pet store chains offer a complete product range of pet food (from entry-level to premium prices) and accessories (including toys, hygiene products, pet furniture and equipment). zooplus has defined its relevant market segment as the conventional specialty retailer segment, including the related specialty product areas of the core supermarket segment.

zooplus expects that e-commerce will slightly increase in the years ahead.[3]

The zooplus AG Management Board is forecasting market growth in the pet supplies category of roughly 2 % to 3 % in Europe in the year 2020. In Germany, around one-third of all households own one or more pets. Changes in the market are brought about by changes in the animal population, the shift in sales toward higher value products and categories within the food and accessories segments ("premiumization"), in addition to the continuing and ever-increasing "humanization" of pets.

Thanks to recurring patterns of demand, especially in the pet food segment, the pet supplies market has very low seasonality. For example, around 86 % of the total demand at zooplus relates to pet food itself, which means the Group enjoys stable medium- to long-term demand.

[2] Based on Euromonitor International 2020 and management estimates

[3] https://einzelhandel.de/presse/zahlenfaktengrafiken/861-online-handel/1889-e-commerce-umsaetze

### Development of online retailing

Over the past several years, e-commerce has gained tremendous significance as an ever more important distribution channel for retailers. According to publications by the German Retail Federation[2] (Handelsverband Deutschland, HDE), B2C e-commerce sales in Germany amounted to roughly EUR 53.3 bn in 2018 (previous year: EUR 48.9 bn), corresponding to a year-on-year increase of around 9 %. Furthermore, the HDE forecast B2C e-commerce revenues of EUR 57.8 bn for 2019. Further growth in European online retailing appears more than likely, particularly given the inherent advantages of online retailing compared to existing bricks-and-mortar retail concepts such as a broader product range, more convenient shopping and more attractive prices. zooplus provides customers access to its websites via desktop computers, tablets, mobile phones and the zooplus app. Logistics service providers and parcel services are also working permanently to make their services more flexible and further improve their quality of service for end customers, which also provides an added boost to the online market's growth momentum. Based on these trends, independent market observers such as Statista expect online retailing to continue to enjoy annual double-digit percentage growth rates in the years to come.

The share of products sold in the pet supply segment on 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 14 % to 16 % of the total European pet market has migrated online.

This places zooplus, as the online market leader[1] in the pet supplies category, in a good 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 gives it the structural capacity to reap crucial benefits from higher efficiency and economies of scale that are not equally available to smaller providers. This structural advantage in areas such as purchasing, private label development, logistics, technology, customer service, and marketing is the basis for zooplus' confidence in its competitive position. Other relative advantages such as the Group's pan-european presence and financial strength also play a role.

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

### Advantages over bricks-and-mortar competitors

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

zooplus does not operate any bricks-and-mortar stores or outlets but instead supplies a wide range of products to customers throughout Europe from a total of 11 fulfillment centers. At the same time, the Group's centralized organization and related efficiency advantages combined with a business that is predominantly automated enable the company to maintain a highly efficient cost structure. zooplus assumes that it is already today's cost leader[1] in the online retailing of pet supplies.

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

### v. Group structure

As of December 31, 2019, the Group's scope of consolidation 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 Pet Supplies Import and Trade Ltd., Istanbul, Turkey | 100 % | Sales company for Turkey |
| 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 |
| zoolog Services sp. z o.o, Wroclaw, Poland | 100 % | Service company for Poland |
| Tifuve GmbH, Munich, Germany | 100 % | (dormant company) |
| zooplus EE TOV, Kiev, Ukraine | 100 % | (dormant company) |
| zooplus d.o.o., Zagreb, Croatia | 100 % | (dormant company) |

The Turkish service company zooplus Pet Supplies Import and Trade Ltd, Istanbul, Turkey, discontinued its operating activities effective December 15, 2019, due to the strategic decision of the Management Board to withdraw from the Turkish market. For now, there is no plan to sell or liquidate the company.

The wholly-owned subsidiary zoolog Services sp. z o.o, Wroclaw, Poland, was acquired in the fourth quarter of the reporting year and has since been included in the consolidated financial statements with capital stock of kEUR 1.

### Management and control of zooplus AG

zooplus AG was managed by the following Management Board members during the 2019 financial year and as of December 31, 2019:

- Dr. Cornelius Patt, CEO (Corporate Management, overall responsibility for Business Development & System Development, IT, Human Resources)
- Andreas Grandinger (Finance, Controlling, Legal, Investor Relations, Internal Audit) until December 20, 2019
- Dr. Mischa Ritter (Logistics and Supply Chain Management)
- Florian Welz (Sales and Marketing, Procurement, Category Management)

In November 2019, the Supervisory Board mutually agreed upon the termination of Mr. Andreas Grandinger's activity as a member of the Management Board as of December 20, 2019. In addition, Mr. Andreas Maueröder was appointed to the Management Board effective January 1, 2020. As of January 1, 2020, Andreas Maueröder is a member of the Management Board of zooplus AG and responsible for Finance, Controlling, Legal, Investor Relations and Internal Audit.

The Management Board is advised and controlled by the Supervisory Board. During the 2019 financial year and as of December 31, 2019, 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, until October 31, 2019
- Ulric Jerome, freelance entrepreneur in the tech and e-commerce sector and investor in London, United Kingdom
- Henrik Persson, founder and manager of Sprints Capital Management Ltd., London, United Kingdom
- Dr. Norbert Stoeck, freelance business consultant, Munich, Germany

In addition, in the course of Karl-Heinz Holland's resignation from office, the District Court of Munich appointed a new member until the next ordinary Annual General Meeting in 2020 at the request of the Management Board:

- Christine Cross, freelance business consultant, Cheltenham, Gloucestershire, United Kingdom, as of November 1, 2019

The average number of employees in the 2019 financial year was 713 (excluding the Management Board; previous year: 635).

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

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

The Group aims to maintain and expand its sales-based market leadership in the European online pet supplies segment and thereby dramatically increase the company's medium and long-term earnings potential. From the company's standpoint, both the Internet and Internet retailing in Europe continue to offer excellent growth opportunities. For this reason, it is important that the Group establishes the necessary structures and positions 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 are 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 a high level of 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 the market position and achieve economies of scale as a basis for ongoing improvements in cost efficiency while maintaining sustainable operating profitability. Management sees this as the most logical strategy for the long-term appreciation of the company's value in the quarters and years to come based on the further 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 invests continuously in expanding its IT software development capacity in order to emphasize the importance of the proprietary systems even more, further improve its product quality and optimize the company's internal processes and algorithms. The existing proprietary systems will be enhanced using standardized systems to meet the Group's specific requirements at all times.

## B. Results of operations, net assets and financial position

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

*a. Financial and non-financial performance indicators*

**i. Financial performance indicators**

The yardstick for measuring the Group's growth and business success is sales. At the beginning of the 2019 financial year, the Group changed its key earnings indicator from earnings before taxes (EBT) to earnings before interest, taxes, depreciation and amortization (EBITDA). The Group will concentrate on free cash flow (cash flow from operating activities plus cash flow from investing activities) in the future as a suitable indicator for monitoring the financial position.

As an indicator to monitor the results of operations, the zooplus Group analyses the gross margin.

**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.

A key indicator for monitoring the sustainable expansion of the business is the currency-adjusted sales retention rate (recurring sales in the financial year from existing and new customers in the prior year as a percentage of the previous year's sales).

With more of a focus on the currency-adjusted sales retention rate as a key performance indicator, the number of new customers acquired will therefore no longer represent a non-financial performance indicator.

*b. Business performance 2019*

**i. The economy and overall market**

There is a risk that the euro debt crisis and currency exchange risks within and outside Europe could have a considerable adverse impact on Europe's real economy. In light of these and other risks to global political stability, it cannot be ruled out that further negative economic developments could have an impact on zooplus' business in the future. Protectionist tendencies within the EU and from the US continue to negatively affect international trade in goods and thereby overall economic growth and consumer purchasing power. The management believes that the expected continued positive development of the specific industry and online retailing environment in the respective individual markets will still have a significantly stronger influence on zooplus than the general economic environment described above. Beyond this, declining economic growth and recessionary tendencies could also have a positive effect on the online business, as customers consider the online business in most sectors to offer efficiency and cost advantages over bricks-and-mortar competitors.

#### ii. Previous year's 2019 guidance

At the beginning of the 2019 financial year, the Group presented the following full-year guidance in its outlook:

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

The Management Board expected the key indicators for the results of operations, net assets and financial position to develop as follows compared to the previous year:

- A gross margin as a percentage of sales at the prior year's level
- To finance growth in 2019 entirely from free cash flow (positive free cash flow)
- To maintain the position of market leadership in the online retailing of pet supplies based on sales, as in the prior year
- To maintain the key figure for currency-adjusted customer loyalty (sales retention rate) in the range of the previous year
- A moderate increase in the number of new customers compared to the previous year

As in previous years, the priority in 2019 remained growth with a focus on sustainable and future profitable growth.

#### iii. Actual performance in the 2019 financial year versus previous year's guidance

Sales in the 2019 financial year increased to EUR 1,524 m, which corresponds to absolute growth of EUR 182 m. The percentage increase in sales equaled 14 %, which was at the lower end of the stated guidance for the 2019 financial year (guidance: year-on-year sales growth of 14 % to 18 %). The company was able to finance its growth from its continued generation of positive free cash flow. At the end of the 2019 financial year, free cash flow amounted to EUR 24.9 m (2018: EUR 14.3 m), underlining the company's internal financing ability. The currency-adjusted sales retention rate as an indicator of customer loyalty was slightly below the previous year, but still at a high level of 91 % (2018: 95 %).

The Group's EBITDA in the 2019 financial year reached a level of EUR 11.8 m, which was at the lower end of the company's guidance for EBITDA in the range of EUR 10 m to EUR 30 m.

The gross margin developed in line with the expectations announced at the beginning of the financial year. The gross margin for full-year 2019 equaled 29.0 % (2018: 28.7 %).

The company maintained its position as the market leader[1], measured by sales, in the European online retail market for pet supplies and acquired a total of 3.3 million new customers during the 2019 financial year (previous year: 2.9 million), which had a stronger-than-expected increase than stated in the prior year's published guidance.

### *c. Results of operations*

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

zooplus was once again able to increase sales in the 2019 financial year with a year-on-year rise of 13.6 % from EUR 1,341.7 m in 2018 to EUR 1,523.7 m in 2019.

Sales performance was driven by growth in both business with existing and new customers. During the reporting year, zooplus once again strengthened its leading market position[1] in the European online retailing of pet supplies in terms of sales and number of customers.

New customer business followed the positive trend of accelerated new customer acquisitions during the financial year with a total of 823 thousand new customers acquired in the fourth quarter of 2019. For the financial year as a whole, the Group recorded 22 % more registered new customers, which once again underscored the appeal of zooplus.

Sales of private label products in the food and litter segment developed particularly well during the past financial year and grew by 29 %, which is significantly higher than the sales growth of food and litter as a whole. The share of the high-margin private label product line within total food and litter sales was thus further increased to a level of 16 %.

Both the high loyalty of existing customers and the good quality of new customers ensured that the currency-adjusted sales retention rate remained at a high level of 91 % in 2019. This loyalty again highlights the sustainability of zooplus' business model.

The development of sales clearly shows that zooplus, as the online market leader[1] in the pet supplies category, continues to profit from the migration of demand from the traditional bricks-and-mortar sales channels to online retailing. Based on the sustained growth across all regional markets, the company has a firm strategic market position, providing a solid basis for further growth.

zooplus generated other income of EUR 9.5 m in the 2019 financial year (2018: EUR 8.6 m). Given the consistent focus on the expansion and optimization of its proprietary software platform, the Group's own work capitalized totaled EUR 2.1 m (2018: EUR 2.8 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

Cost of materials increased in line with sales growth and amounted to EUR 1,082.1 m in the 2019 financial year (2018: EUR 956.8 m). This development is reflected in the gross margin for the reporting year of 29.0 % (2018: 28.7 %). A disproportionately high increase in private label sales of food and litter products and a stronger focus on high-margin sales had a positive effect on the development of the gross margin. The trend towards stabilizing the gross margin that was evident in 2018 continued in the 2019 financial year. While keeping an eye on the competitive situation, zooplus will continue to offer its customers a compelling combination of price and performance and thereby further expand the company's market-leading position in Europe.

### Personnel expenses

Personnel expenses increased from EUR 47.1 m in 2018 to EUR 55.3 m in the 2019 financial year, resulting in a steady personnel expense ratio of 3.6 % (based on sales; 2018: 3.5 %) compared to the prior year. The increase was a consequence of the expansion of personnel in key operating areas in order to accommodate the growing size of the Group. In the 2019 financial year, the Group had an average of 713 employees (excluding the Management Board; previous year: 635).

### Impairments on financial assets

Impairments recognized on financial assets amounted to EUR 4.1 m in the 2019 financial year (2018: EUR 2.8 m). The increase compared to the prior year was mainly a result of higher customer balances on the reporting date.

### Other expenses

Other expenses increased from EUR 337.9 m in the previous year to EUR 382.0 m in the reporting period. Other expenses mostly consist of expenses for logistics / fulfillment, marketing and payment transactions. At 25.1 %, their percentage share of Group sales remained at the prior year's level (2018: 25.2 %). The first-time adoption of IFRS 16 led to changes in the reporting structure through shifts from other expenses to "depreciation and amortization" and "financial result."

### Logistics and fulfillment expenses

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

Logistics and fulfillment expenses as a percentage of sales reached a level of 18.3 % in 2019 compared to 19.7 % in the prior year. As a result of the first-time adoption of IFRS 16 at the beginning of the 2019 financial year, former expenses for logistics services in the amount of EUR 17.2 m were classified and recorded as depreciation and amortization. In the comparable 2018 period, logistics expenses of EUR 5.7 m were classified as depreciation due to their classification as a finance lease item and were also recorded within this item.

The price adjustments made by individual parcel service providers were more than compensated for by the ongoing efficiency improvements realized throughout the entire logistics network as well as a result of the focus on increasing the value per box in the 2019 financial year. This effect was offset by start-up costs related to the opening of new logistics operations in Stradella, near Milan, Italy, in the second quarter.

### Marketing expenses

Marketing expenses are driven by the acquisition of new customers in all European markets. New customer acquisitions mainly take place in the area of online marketing, where the effectiveness of individual campaigns can be measured continuously, providing an opportunity to adjust individual activities accordingly on a regular basis. This is true for the entire spectrum of search engine optimization and marketing via affiliate marketing to other online partnerships, as well as for online direct marketing. For the first time, there was also a stronger integration of complementary activities in the areas of conventional and offline-based marketing into the marketing strategy, which has been carried out since the second quarter of 2019. The rationale for engaging in these complementary activities is the desire to take a broader approach to acquiring new customers in order to reach traditional offline customers more quickly and win them over based on zooplus' exceptional prices and services and significantly raise the brand awareness of zooplus. The increase in the share of marketing expenses relative to sales from 2.2 % in 2018 to 3.3 % in 2019 illustrates the consistent zooplus approach of investing in the sustainable acquisition of new customers and the further penetration of regional markets. Marketing expenses were significantly affected by the supplementary marketing activities launched in the second quarter of 2019 and are not directly comparable to the previous year. A total of 22 % more new customers were acquired in 2019 than in the previous year, which also underscores the attractiveness of zooplus to new customers. Despite the rise in marketing expenses, the consistently low marketing expense ratio relative to sales, combined with a high level of customer loyalty measured in terms of the sales retention rate, is once again an indication of the high efficiency of the marketing approach and the very high level of customer satisfaction throughout Europe with the zooplus product range.

### Payment transaction expenses

Payment transaction expenses relative to sales remained at the prior year's level and amounted to 0.8 % of sales in 2019.

### Other miscellaneous expenses

In addition to the expenses described above for logistics and fulfillment, marketing and payment transactions, the expenses during the reporting year were primarily related to the areas of customer service, office rentals, general administrative costs, technology costs and other expenses incurred in the ordinary course of business. These expenses remained at the prior year's level and now add up to 2.6 % of sales (2018: 2.5 %). The first-time adoption of IFRS 16 led to changes in the reporting structure through shifts from other miscellaneous expenses to "depreciation and amortization" and "financial result." In the 2019 financial year, former rental and similar expenses amounting to EUR 3.2 m were classified as depreciation and recognized as such.

### Depreciation and amortization expenses

At EUR 26.3 m, depreciation and amortization expenses in the 2019 financial year were significantly higher than in the same period of 2018 (EUR 10.1 m) as a result of the first-time adoption of IFRS 16 described above. The increase is mainly due to depreciation and amortisation, caused by changes in the accounting treatment of leases in connection with IFRS 16. In 2019, logistics expenses of EUR 17.2 m, as well as rental and similar expenses of EUR 3.2 m, are disclosed under depreciation and amortization. In 2018, depreciation and amortization amounted to EUR 5.7 m as a result of the capitalization of property, plant and equipment from finance leases.

### Financial expenses

The financial result in the 2019 financial year declined year-on-year from EUR –0.8 m to EUR –1.4 m. Of this amount, EUR –1.2 m were interest expenses in connection with the first-time adoption of IFRS 16.

### iii. Earnings development

In summary, zooplus generated earnings before interest, taxes, depreciation and amortization (EBITDA) of EUR 11.8 m in the 2019 financial year compared to EUR 8.6 m in the prior-year. Earnings before taxes (EBT) amounted to EUR –15.9 m in the reporting year compared to EUR –2.3 m in the prior year. The stabilization in the gross margin continued throughout the 2019 financial year. The earnings trend was again impacted by targeted investments in business growth with new customers and the ongoing expansion of the company's leading market position. In addition, significantly higher marketing expenses were incurred in the second and third quarters of 2019 compared to the same prior-year period as a result of not only the company's expanded marketing approach but specifically in relation to the "20 years of zooplus" marketing campaign. The EBITDA margin improved year-on-year to 0.8 % (EBITDA margin 2018: 0.6 %).

zooplus achieved a consolidated net loss of EUR –12.1 m (previous year: EUR –2.1 m) reflecting its stronger investment focus on the sustainable expansion of its business in 2019. At EUR –12.3 m (previous year: EUR –2.5 m), total comprehensive income differed from the consolidated net loss as a result of the hedge reserve of EUR –0.2 m and currency translation differences of EUR –0.1 m.

*d. Net assets*

Non-current assets at the end of the 2019 financial year totaled EUR 102.9 m compared to EUR 70.0 m at the end of 2018. This increase largely resulted from the capitalization of rights-of-use with a net carrying amount of EUR 81.0 m as of December 31, 2019, following the adoption of IFRS 16. At the beginning of the financial year, previously recognized finance leases for property, plant and equipment amounting to EUR 50.0 m were reclassified as rights-of-use.

Within current assets, inventories were above the level at the end of 2018 and amounted to EUR 117.7 m. Generally, it is important to note that, especially when it comes to general product availability, private label and direct import products, which are subject to longer procurement cycles, the crucial drivers of sales per customer account are sufficient inventory levels and, consequently, high product availability.

Accounts receivable at the end of the 2019 financial year amounted to EUR 27.7 m (2018: EUR 28.1 m).

Other current assets increased as of December 31, 2019 to EUR 47.7 m compared to EUR 35.2 m at the end of 2018 as a result of higher claims for marketing services against suppliers and a greater level of VAT tax receivables.

Cash and cash equivalents in the 2019 reporting year increased by EUR 4.8 m to EUR 64.3 m compared to EUR 59.5 m in the prior year, largely as a result of improvements in working capital.

Equity at the end of 2019 totaled EUR 100.8 m compared to EUR 111.1 m at the end of 2018. This decline was mainly due to the Group's net loss in 2019.

The increase in non-current and current lease liabilities as of December 31, 2019 compared to the end of the 2018 financial year was a result of the first-time adoption of IFRS 16 described in the section on non-current assets. Corresponding to the recognition of rights-of-use, lease liabilities also increased in this context, with a total of EUR 61.8 m recognized as non-current lease liabilities and EUR 20.4 m as current lease liabilities.

Accounts payable rose to EUR 125.1 m at the end of 2019 compared to EUR 99.7 m at the end of 2018. This increase primarily resulted from an improvement in the payment terms with suppliers.

At a total of EUR 14.0 m, contract liabilities were slightly higher than their level at the end of 2018 (prior year: EUR 12.0 m).

Other liabilities consisted primarily of value-added tax liabilities.

Most of the company's liabilities are denominated in euros. Portions of liabilities are denominated in other European currencies and US dollars.

In the 2019 financial year, the company used derivative financial instruments in the form of forward exchange transactions for hedging the GBP and CHF. Off-balance-sheet financial instruments were not used.

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

Provisions of EUR 6.5 m (2018: EUR 2.9 m) concern provisions for the long-term incentive program for the Management Board and pending levies, among others. In 2018, a provision of EUR 0.3 m was long-term in nature.

The company's total assets at the end of the reporting period amounted to EUR 361.0 m in comparison to their level of EUR 301.8 m as of December 31, 2018. The sharp rise is mainly a result of the first-time adoption of IFRS 16 in 2019.

*e. Financial position*

Positive cash flow from operating activities in the 2019 financial year totaled EUR 28.1 m compared to EUR 21.7 m in 2018. Decisive factors in this development were the changes in recognition under IFRS 16 and a continued improvement in working capital.

Negative cash flow from investing activities totaled EUR – 3.2 m in 2019 compared to EUR – 7.3 m in 2018 and was impacted by investments in hardware and software components in the form of purchases and investments in internally generated intangible assets and in operating and office equipment.

Cash flow from financing activities in the 2019 financial year amounted to EUR – 20.1 m compared to EUR –6.1 m in 2018 and mainly consisted of the repayment of finance lease liabilities in the amount of EUR 20.0 m.

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

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

The available liquidity based on the Group's available lines of credit significantly exceeded the level required to secure business operations at all times. In the 2019 financial year, zooplus was able to meet all of its payment commitments at all times.

zooplus AG has 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. No liabilities to credit institutions existed as of the end of the 2019 financial year.

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

*f. Overall statement on the financial situation*

In the Management Board's opinion, the 14 % increase in sales to EUR 1,524 m in 2019, placed growth at the lower end of expectations. Based on the expanded online and offline marketing approach and the strong increase in new customer business, sales performance picked up as expected in the second half-year following the modest sales performance in the first half-year.

At 91 %, the currency-adjusted sales retention rate remained at a high level. One development that should be highlighted is the continued trend of stabilization in the gross margin in 2019. The Group's overall development in 2019 confirms zooplus' strategic approach of focusing on expanding its strategic market position and seizing the market's high potential. Moreover, this ongoing strong growth was once again funded entirely through the company's positive free cash flow.

Against the backdrop of continued dynamic growth, the current liquidity situation and zooplus' position as the European online market leader[1] in the pet supplies category, the Group believes that it is well equipped to finance robust growth in the year ahead, as well as the related effects on its working capital.

*g. zooplus AG (according to the German Commercial Code [HGB])*

### i. Corporate structure and business activities

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

### ii. Results of operations

#### Sales and other operating income

During the past financial year, zooplus AG increased its sales by 14.1 % over the prior year, from EUR 1,358.2 m in 2018 to EUR 1,550.1 m in 2019. Sales reflect the sale of merchandise to customers and also include customary marketing refunds and sales of merchandise to subsidiaries.

Other operating income in the 2019 financial year increased from EUR 33.8 m to EUR 38.6 m and equaled 2.5 % of sales as in the prior reporting year. Other operating income mainly contains costs passed on to subsidiaries, currency gains and reversals of provisions.

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

#### Cost of materials

The company's cost of materials increased to EUR 1,158 m in the reporting period compared to EUR 1,019 m in 2018. The cost of materials rose slightly slower in comparison to sales, which led to a 0.3 percentage point decline in the cost of materials ratio to 74.7 % in 2019 versus the prior year (75.0 %). This, in turn, led to an increase in the company's gross margin from 25.3 % (2018: 25.0 %).

#### Personnel expenses

Personnel expenses increased from EUR 32.6 m in 2018 to EUR 36.8 m in 2019. The personnel expense ratio (personnel expenses relative to sales) remained stable year-on-year at 2.4 %. The average number of employees in the reporting year, excluding the Management Board, equaled 411 (previous year: 382).

#### Depreciation and amortization

Expenses for scheduled depreciation and amortization in the 2019 financial year were EUR 3.5 m, which was slightly higher than in 2018 (EUR 3.2 m). No impairments were recognized in the 2019 financial year or in the prior year.

#### Other operating expenses

Other operating expenses increased from EUR 341.8 m in the prior year to EUR 395.6 m in the reporting year. Other expenses mainly consist of expenses for logistics / fulfillment, marketing and payment transactions. Their percentage share of sales remained at the prior year's level and amounted to 25.5 %.

In the second quarter of the 2019 financial year, new logistics capacity was put into operation in the city of Stradella, near Milan, Italy.

#### Income from investments

zooplus AG received a distribution of EUR 1.4 m in the reporting year from its subsidiary zooplus services Ltd, Oxford, Great Britain.

#### Profit and loss transfer agreements

In the 2019 financial year, income from profit transfer agreements totaled EUR 2.2 m (2018: EUR 4.4 m) and expenses from loss transfer agreements totaled EUR 9.1 m (2018: EUR 2.3 m).

#### Earnings

zooplus AG generated earnings after taxes of EUR –11.2 m in the 2019 financial year compared to EUR –2.7 m in the previous year. A net loss of EUR –11.8 m was incurred (previous year: EUR –3.4 m).

### iii. Net assets

Non-current assets declined from EUR 12.8 m as of December 31, 2018 to EUR 10.9 m in the 2019 financial year as a result of scheduled depreciation and amortization of property, plant and equipment and intangible assets.

In the fourth quarter of the 2019 reporting year, zooplus AG acquired 100% of the shares in zoolog Services sp. z o.o., Wroclaw, Poland. This subsidiary has been recognized at its acquisition cost of kEUR 4.

Within current assets, inventories increased from EUR 105.2 m at the end of 2018 to EUR 112.6 m.

Accounts receivable reached a net level of EUR 25.0 m at the end of 2019 (previous year: EUR 25.0 m). A total of EUR 2.6 m (previous year: EUR 2.0 m) of fully impaired accounts receivable were derecognized in the 2019 financial year.

Cash and cash equivalents increased by EUR 1.9 m compared to the previous year to EUR 53.7 m at the end of the 2019 financial year. This increase resulted mainly from the dividend received and improvements in working capital.

Equity totaled EUR 88.1 m at the end of 2019, compared to EUR 99.8 m at the end of 2018. The decline resulted primarily from the 2019 net loss and the resulting retained loss.

Other provisions increased year-on-year from EUR 27.7 m to EUR 38.2 m at the end of the 2019 financial year, mainly due to a reporting date-related increase in provisions for outstanding invoices and a provision for pending levies. In the previous year, a provision of EUR 0.3 m was long-term in nature.

Accounts payable amounted to EUR 91.0 m as of December 31, 2019, compared to EUR 68.5 m at the end of 2018. The increase in accounts payable is mainly the result of the company's growth and better payment terms with suppliers and service providers.

Most of the company's liabilities are denominated in euros. Portions of liabilities are denominated in other European currencies and US dollars.

In the 2019 financial year, the company used derivative financial instruments in the form of forward exchange transactions for hedging the GBP and CHF. Off-balance-sheet financial instruments were not used.

Other liabilities in the reporting period increased from EUR 18.3 m at the end of 2018 to EUR 20.8 m as of December 31, 2019, and primarily relate to VAT liabilities.

All liabilities had short-term maturities of less than one year.

Overall, the company's total assets amounted to EUR 264.7 m at the end of the 2019 financial year in comparison to a level of EUR 233.1 m as of December 31, 2018.

### iv. Financial position

Cash flow from operating activities totaled EUR 2.6 m in 2019 compared to EUR 9.5 m in 2018, mainly as a result of the loss, which was partially compensated for by improvements in working capital.

The neutral cash flow from investing activities (EUR 0.0 m in 2019 compared to EUR –3.8 m in 2018) was affected by investments in hardware and software components in the form of purchases and investments in internally generated intangible assets and investments in office and operating equipment, completely offset by the dividend received. Investments in subsidiaries in the 2019 financial year amounted to kEUR 4.

Cash flow from financing activities (EUR –0.7 m in 2019 compared to EUR 1.6 m in 2018) mainly includes repayments to affiliated companies from loans.

### v. Report on risks and opportunities for zooplus AG

The significant opportunities and risks for zooplus AG, as the parent company and the only major operating company in the zooplus Group, reflect the opportunities and risks of the Group described on pages 73 to 78 of the Report on risks and opportunities. zooplus AG is integrated into the Group-wide risk management system. The description of the internal control system required by Section 289f (1) HGB is provided on pages 78 and 79.

### vi. Outlook for zooplus AG

The expectations described in Section 2A in the report on the outlook for the zooplus Group also apply to the development of zooplus AG as the parent company of the Group.

## 2. Report on outlook, risks and opportunities

### A. Outlook

According to the latest economic forecasts, the economic environment could deteriorate in 2020. At the same time, declining economic growth and recessionary tendencies could also have a positive effect on online retailing since, from a customer standpoint, efficiency and cost savings can often be better achieved online in most sectors rather than at the bricks-and-mortar competitors. It also remains to be seen what effect Brexit will have on the EU member states and pan-European companies. It is not yet possible to foresee how protectionist tendencies within the EU will affect the international trade of goods and, thereby the growth of the overall economy and the purchasing power of consumers. Furthermore, from a macroeconomic perspective, it is still uncertain how the spread of the COVID-19 pathogen, the so-called 'coronavirus', will affect the trade in consumer goods, both stationary and online, in the short and medium term. The current developments and restrictions in individual procurement markets as well as individual sales markets are continuously monitored by the Group and appropriate adjustments are made to counteract any possible impacts on procurement cycles or on transport processing. If the COVID-19 pathogen continues to spread and if regional restricted zones are established, as is currently the case in some European countries, significant reductions in sales cannot be ruled out.

Irrespective of this environment, we assume 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[1] in the European online market for pet supplies, will continue to benefit from these trends. The expectation for our pet supply segment is for slightly higher sales overall in 2020.

We will focus on the company's growth and expansion of its strategic perspectives in the 2020 financial year. To do this, we will concentrate on generating sustainable and profitable growth in the long term and are investing specifically in our product range and customer loyalty, procurement and distribution logistics, information technology and data analysis. This will secure our position as the European market leader in the online retailing of pet supplies. At the present time, the Management Board cannot rule out that, in connection with the so-called 'coronavirus' and the measures taken by the respective governments, effects on the cost efficiency of both procurement and distribution could arise in the current financial year, which would thus also burden the overall result.

Based on the above, the Group therefore expects the following developments for the 2020 financial year:

- Taking into account effects in connection with the spread of the COVID-19 pathogen to the extent known to date, we expect sales growth volume in a range comparable to the prior year. This would correspond to a year-on-year increase in sales of at least EUR 180 m.
- Operating profitability, measured by earnings before interest, taxes, depreciation and amortisation (EBITDA), below the previous year's level – but in positive to neutral range – due to efficiency losses in the total cost ratio, particularly in the logistics area, in connection with effects of the COVID-19 pathogen.

We expect 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:

- For 2020, we expect a gross margin (in percent of sales) at the same level as in the previous year, excluding the effects of the further spread of the COVID-19 pathogen on raw material prices.
- We expect our growth in 2020 to be financed entirely from free cash flow (positive free cash flow) and to achieve further improvments in our working capital, which should also benefit our free cash flow development.
- As in the previous year, we expect to maintain our position as the market leader in the online retailing of pet supplies measured in terms of sales.
- We expect a continuation in the trend towards a stabilisation of the currency-adjusted sales retention rate as a result of our stronger focus on customer loyalty.

In 2020, as in previous years, our priority will be to achieve a sustainable expansion in our business while concentrating on future sustainable and profitable growth.

## B. Risk report

*a. Risk management system*

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

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

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

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

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

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

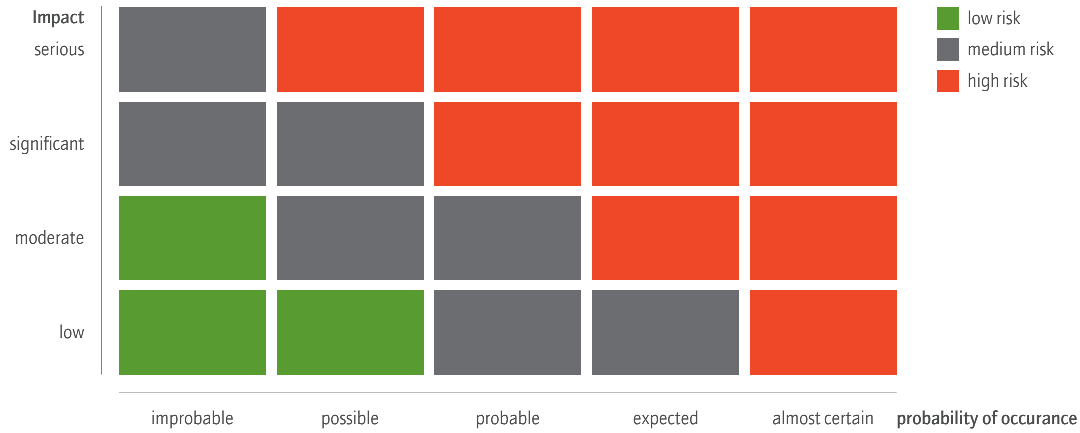
**Low:** No tangible effect on the net profit / loss for the period and / or the company's value.

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

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

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

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




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

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

*b. Risks*

### i. Strategic risk (market risk)

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

Should the growth of online retailing slow, 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 the sales retention rate at a high level and acquire customers in all of the key European markets by means of its broad product range, steady product availability and competitive prices combined with easy and convienent delivery is a strong indication that the business model will continue to be successful, even in economically challenging times. This risk is classified as low.

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

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

#### ii. Operating risk

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

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

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

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

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

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

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

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

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

### 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, recognized assets or liabilities are recorded in a different currency than the Group's functional currency. The Group's risk management policy provides for hedging of between 0% and 70% of the transactions expected (consisting mainly of export sales and inventory purchases). As of the December 31, 2019 reporting date, forward exchange transactions were entered into solely for the GBP to hedge sales in British pounds. The expected transactions that will be settled using hedging instruments correspond to the hedge accounting criteria of a "highly probable" forecast transaction. The assessed risk for all foreign currency transactions amounts to a mid-single-digit million euro figure and is classified as medium.

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

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, restrictions could be imposed as a result of another banking and ⁄ or financial crisis. 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, 2019 reporting date, the Group has not utilized any of these credit lines and, therefore, classifies this risk as low.

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

## C. Opportunity report

### i. Opportunity management

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

### ii. Market opportunities

Based on zooplus' dominant market position in the online retailing of pet supplies in all key European markets, the company has a lead in terms of competition and size compared to other sector-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[1] (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. In addition, zooplus is of the opinion that further economies of scale can be realized in terms of processes and logistics.

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

### iii. Development of the e-commerce market

The trend toward greater e-commerce at the expense of bricks-and-mortar retailing appears to be uninterrupted. zooplus believes, as do a number of studies, that the e-commerce market will continue to see annual double-digit percentage growth. zooplus should continue to profit from this trend for many years to come 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 highly qualified employees, some of who have been employed within the Group for an extended period of time, allow Group strategies to be reliably and quickly implemented, particularly when it comes to further expansion and internationalization. The company's management is also able to draw on wide-ranging, enduring and detailed industry know-how.

**Overall statement on the risk and opportunity situation**

In view of the opportunities presented and the Group's positive overall development, it appears that both the risks and potential dangers are limited and can be controlled. The risk management systems and processes have proven themselves. With the exception of the risks associated with the spread of the COVID-19 pathogen, there are no significant changes in risks and opportunities compared to the previous year. At present, it is not possible to foresee over what period of time and to what extent this will have a negative impact on zooplus' net assets, financial position and results of operations and to what extent this can be offset by countervailing positive effects. zooplus is continuously monitoring developments in connection with the Corona crisis and is working to evaluate the resulting opportunities and risks. 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 continued existence of the Group or zooplus AG.

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

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

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

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

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

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

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

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

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

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

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

## 4. Remuneration report

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

### A. Structure of the Management Board's remuneration

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

#### a) Fixed annual remuneration

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

#### b) Variable multi-year performance-based remuneration

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

i) Stock option program for Management Board members

The Management Board participates in a stock option program. The exercise period for these stock options is four years. For the details and parameters of the stock option programs, see the explanatory notes under Item 15 in the notes to the consolidated financial statements.

ii) Share-based remuneration through cash compensation

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

### c) Fringe benefits

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

### d) Employment termination benefits

#### Maximum severance payment

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

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

#### Change of control

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

### B. Level of Management Board remuneration

#### Remuneration of the Management Board for the 2019 financial year

In the 2019 financial year, the remuneration of the Management Board totaled kEUR 1,699 (previous year: kEUR 3,872). Of this amount, kEUR 1,630 (previous year: kEUR 1,206) was fixed annual remuneration, kEUR 0 (previous year: kEUR 2,594) was variable multi-year remuneration and kEUR 69 (previous year: kEUR 72) was attributable to other compensation.

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

| 2019 total remuneration kEUR | Fixed remuneration | Variable multi-year remuneration | Fringe benefits | 2019 Total |
|---|---|---|---|---|
| Dr. Cornelius Patt | 550 | 0 | 19 | 569 |
| Andreas Grandinger[1] | 350 | 0 | 24 | 374 |
| Dr. Mischa Ritter | 350 | 0 | 15 | 365 |
| Florian Welz | 380 | 0 | 11 | 391 |
| **Total** | **1,630** | **0** | **69** | **1,699** |

[1] Pro rata until December 20, 2019

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

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

*2016 Stock Option Program*
With the Supervisory Board's consent and based on a resolution of the Annual General Meeting on May 31, 2016, the Management Board resolved on the creation of the 2016 Stock Option Program for issuing stock options with subscription rights for shares of zooplus AG to members of the company's Management Board. Under the 2016 Stock Option Program, members of the company's Management Board can receive up to a total of 100,000 shares in the company. Each option entitles the holder 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. 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 and a Monte Carlo simulation (2016 Stock Option Program) as of the grant date and taking into account the conditions at which the stock options were granted. The anticipated maturity of stock options is based on historical data and current expectations and does not necessarily reflect the actual exercise behavior of beneficiaries. The future volatility during the stock options' expected maturity period was estimated on the basis of historical volatilities and expected future share price performance. Because the company's shares have a limited trading history, the above estimation was based on the share's volatility of the past year. Expected volatility is derived based on the assumption that past volatility can serve as an indication of future trends, whereby the actual future volatility can deviate from the assumptions made.

Under the 2016 Stock Option Program, the company granted Dr. Patt 50,000 stock options and Mr. Grandinger 30,000 stock options with a fair value of EUR 24.85 each. The exercise price of the shares outstanding as of December 31, 2019 is EUR 124.45 per share. Personnel expenses recognized in the reporting year from the 2016 Stock Option Program amounted to kEUR 310 for Dr. Patt and kEUR 319 for Mr. Grandinger.

*2018 Stock Option Program*

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

Each option entitles the holder 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. The exercise price per share corresponds to the volume-weighted, 6-month average price of the zooplus share in Xetra trading (or a comparable successor system) on the Frankfurt Stock Exchange prior to the issue date of the stock options, or at least the lowest issue price as defined under Section 9 (1) AktG. The earliest the options can be exercised is four years after the options have been granted. Stock options can only be exercised when and to the extent that the performance targets described as follows have been achieved: Subscription rights to stock options can only be exercised if certain performance targets have been achieved. The performance targets are based on the zooplus share's absolute price performance during the vesting period. Depending on the price performance of zooplus shares, beneficiaries may be entitled to exercise differing amounts of their allocated stock options. A third of the stock options may be exercised when the volume-weighted 6-month average price of the company's shares in Xetra trading (or a comparable successor system) on the Frankfurt Stock Exchange at the end of the vesting period is at least 20 % above the exercise price (Performance Target I, in which case a third of the stock options may be exercised), at least 30 % above the exercise price (Performance Target II, in which case two-thirds of the stock options can be exercised) and at least 50 % above the exercise price (Performance Target III, in which case all of the stock options can be exercised). Subscription rights may be exercised within two years, starting with the end of the vesting period. All options can only be settled in equity instruments.

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

Under the 2018 Stock Option Program, a total of 115,000 stock options were issued to members of the company's Management Board in the 2018 financial year. In August, Dr. Patt was granted 50,000 stock options and Mr. Grandinger 30,000 stock options (of which 17,500 expired up to and including 31 December 2019) with a fair value of EUR 21.59 each. Furthermore, in December 2018, Dr. Ritter and Mr. Welz were each granted 17,500 stock options with a fair value of EUR 24.72. The subscription price for the options issued in August 2018 is EUR 162.32 per share and the subscription price for the options issued in December 2018 is EUR 148.83 per share. Personnel expenses recognized in the reporting year from the 2018 Stock Option Program amounted to kEUR 180 for Dr. Patt, kEUR 23 for Mr. Grandinger, kEUR 108 for Dr. Ritter and kEUR 108 for Mr. Welz.

The weighted average remaining contractual life of the remaining stock options outstanding as of December 31, 2018 for the current and former members of the Management Board is 3.73 years.

*Cash-settled, share-based compensation*

Management Board members were granted a long-term incentive program (cash-settled, share-based compensation) until the end of the third quarter of 2016 in the form of a share price-based performance share plan in annual tranches in order to create a lasting incentive for senior executives. Each tranche was allocated a number of virtual shares in the company based on the achievement of the EBT target. These virtual shares have a three-year vesting period after which the company's Management Board members may be eligible to receive a cash payment. The number of virtual shares corresponds to the ratio of the EBT-dependent base amount and the average initial reference price of the company's shares. The basis for calculating the EBT base amount is the EBT stated in the company's consolidated financial statements under IFRS from the prior financial year and approved by the Supervisory Board. Achieving the objectives requires the achievement of certain EBT targets set out in corporate planning. As of December 31, 2019, Dr. Patt had a total of 1,195 subscription rights under this program with a fair value of kEUR 113, and Mr. Grandinger had a total of 569 subscription rights with a fair value of kEUR 54. Former members of the Management Board are entitled to a total of 683 subscription rights with a fair value of kEUR 64 as of the December 31, 2019 reporting date. Due to the decline in the share price since the beginning of the 2019 financial year, there was a reversal of provisions for share-based payments with cash settlement. Income in the form of a reversal of provisions for share-based payments with cash settlement that was recognized in the reporting period included kEUR 126 for Dr. Patt, kEUR 50 for Mr. Grandinger and kEUR 83 for former members of the Management Board.

#### Other agreements

Andreas Grandinger was discharged from the zooplus AG Management Board at his own request with effect from December 20, 2019 and left zooplus AG on December 31, 2019. The underlying employment contract had stipulated a term until September 30, 2021. The Supervisory Board and Mr. Grandinger mutually agreed to end his employment relationship with zooplus as of December 31, 2019. Mr. Grandinger was released from the obligation to perform his duties for the remainder of the employment relationship with continued payment of his remuneration as of December 21, 2019. The compensation to be paid to Mr. Grandinger until December 31, 2019 includes the pro rata fixed annual remuneration as well as the fringe benefits under the original employment contract. In addition, Mr. Grandinger received a fixed one-off severance payment of kEUR 345.

#### Remuneration of former Management Board members

The remuneration of former members of the Management Board amounted to kEUR – 72 (previous year: kEUR 208). This is mainly due to the revaluation of the long-term incentive programme.

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

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

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

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

## Benefits granted

| Benefits granted kEUR | Dr. Cornelius Patt CEO in 2019 | | | |
|---|---|---|---|---|
| | 2018 | 2019 | 2019 (Min.) | 2019 (Max.) |
| Fixed remuneration | 500 | 550 | 550 | 550 |
| Fringe benefits | 18 | 19 | 19 | 19 |
| **Sub total** | **518** | **569** | **569** | **569** |
| One-year variable remuneration | | | | |
| Multi-year variable remuneration | | | | |
| Long-term incentive program | 0 | 0 | 0 | 0 |
| SOP 2018 | 1.080 | 0 | 0 | –[1] |
| **Total** | **1.080** | **0** | **0** | **0** |
| **Total remuneration** | **1.598** | **569** | **569** | **569** |

| Benefits granted kEUR | Andreas Grandinger Management Board member until December 20, 2019 | | | |
|---|---|---|---|---|
| | 2018 | 2019 | 2019 (Min.) | 2019 (Max.) |
| Fixed remuneration | 330 | 350 | 350 | 350 |
| Fringe benefits | 26 | 24 | 24 | 24 |
| **Sub total** | **356** | **374** | **374** | **374** |
| One-year variable remuneration | | | | |
| Multi-year variable remuneration | | | | |
| Long-term incentive program | 0 | 0 | 0 | 0 |
| SOP 2018 | 648 | 0 | 0 | –[1] |
| **Total** | **648** | **0** | **0** | **0** |
| **Total remuneration** | **1,004** | **374** | **374** | **374** |

| Benefits granted kEUR | Dr. Mischa Ritter Management Board member in 2019 | | | |
|---|---|---|---|---|
| | 2018 | 2019 | 2019 (Min.) | 2019 (Max.) |
| Fixed remuneration | 29 | 350 | 350 | 350 |
| Fringe benefits | 1 | 15 | 15 | 15 |
| **Sub total** | **30** | **365** | **365** | **365** |
| One-year variable remuneration | | | | |
| Multi-year variable remuneration | | | | |
| Long-term incentive program | 0 | 0 | 0 | 0 |
| SOP 2018 | 433 | 0 | 0 | –[1] |
| **Total** | **433** | **0** | **0** | **0** |
| **Total remuneration** | **463** | **365** | **365** | **365** |

| Benefits granted kEUR | Florian Welz Management Board member in 2019 | | | |
|---|---|---|---|---|
| | 2018 | 2019 | 2019 (Min.) | 2019 (Max.) |
| Fixed remuneration | 44 | 380 | 380 | 380 |
| Fringe benefits | 2 | 11 | 11 | 11 |
| **Sub total** | **46** | **391** | **391** | **391** |
| One-year variable remuneration | | | | |
| Multi-year variable remuneration | | | | |
| Long-term incentive program | 0 | 0 | 0 | 0 |
| SOP 2018 | 433 | 0 | 0 | – [1] |
| **Total** | **433** | **0** | **0** | **0** |
| **Total remuneration** | **479** | **391** | **391** | **391** |

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

## Benefits paid

In the 2019 financial year, the 2015 tranche of the long-term incentive program was paid out.

| Benefits paid kEUR | Dr. Cornelius Patt CEO | Andreas Grandinger Management Board member | Dr. Mischa Ritter Management Board member | Florian Welz Management Board member |
|---|---|---|---|---|
| | 2019 | 2019 | 2019 | 2019 |
| Fixed remuneration | 550 | 350 | 350 | 380 |
| Fringe benefits | 19 | 24 | 15 | 11 |
| **Sub total** | **569** | **374** | **365** | **391** |
| One-year variable remuneration | 0 | 0 | 0 | 0 |
| One-year variable remuneration | | | | |
| Long-term incentive program | 223 | 106 | 0 | 0 |
| **Sub total** | **223** | **106** | **0** | **0** |
| **Total remuneration** | **792** | **480** | **365** | **391** |

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

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

In the 2019 financial year, the members of the Management Board did not receive any benefits from third parties with regard to their activities on the Management Board, nor have benefits been promised to them.

### Remuneration of the Supervisory Board

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

| | Supervisory Board | Audit Committee | Personnel Committee | Nomination Committee | Remuneration in kEUR<br>2019 | 2018 |
|---|---|---|---|---|---|---|
| Christian Stahl | Chair | | Chair | ✓ | 85 | 85 |
| Moritz Greve | Deputy Chair | ✓ | ✓ | Chair | 45 | 45 |
| Karl-Heinz Holland (until October 31, 2019) | | ✓ | | | 33 | 40 |
| Ulric Jerome | | | ✓ | | 40 | 40 |
| Henrik Persson | | | | ✓ | 40 | 40 |
| Dr. Norbert Stoeck | | Chair | | | 45 | 45 |
| Christine Cross (as of November 1, 2019) | | ✓ | | | 7 | - |
| **Total Remuneration** | | | | | **295** | **295** |

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

*Composition of subscribed capital*
As of December 31, 2019, subscribed capital totaled EUR 7,146,688.00 and consisted of 7,146,688 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, 2019, no shareholder held more than 10 % of the voting rights.

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

*Appointment or dismissal of members of the Management Board, amendments to the Articles of Association*
The appointment or dismissal of Management Board members is conducted in compliance with Sections 84 and 85 of the German Stock Corporation Act (AktG). The Supervisory Board appoints Management Board members for a maximum of five years. Members may be reappointed, or their term of office extended for a maximum of five years in each case. In addition, Section 7 of the Articles of Association stipulates that the Supervisory Board shall determine the number of Management Board members, and the Management Board is allowed to 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. 6 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 in order 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 by issuing new no-par value bearer shares with a notional interest in the 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 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 26,990.00 through the issue of up to 26,990 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 as part of the Stock Option Program 2012 / 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.

b. 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 / I). Conditional Capital 2016 / I serves to secure subscription rights from stock options which can be issued by zooplus AG under the 2016 Stock Option Program from the registration date of Conditional Capital 2016 / 1 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 and the company does not grant treasury shares in fulfilment of the subscription rights.

c. According to Section 5 (8) of the Articles of Association, the company's share capital has been conditionally increased by a further EUR 365,000.00 as of the reporting date (Conditional Capital 2018 ⁄ I). Conditional Capital 2018 ⁄ I currently underlies the rights to subscribe to up to 365,000 no-par-value bearer shares with a notional interest in the share capital of EUR 1.00 per share. Conditional Capital 2018 ⁄ I serves to secure subscription rights from stock options granted to members of the Management Board and company employees. The conditional capital increase will only be executed to the extent that the holders of the subscription rights issued under the 2018 stock option plan pursuant to the authorization resolution of the Annual General Meeting on June 13, 2018, exercise their subscription rights to company shares, and the company does not grant treasury shares in fulfillment of the subscription rights.

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

The authorization may be exercised for all legally permissible purposes, in particular in pursuit of one or more of the purposes named under letter b) (1) to (6). Trading in the company's own shares is not allowed. The authorization may be exercised in whole or in part, and in the latter case, on several occasions. 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 cash at a price (excluding incidental selling costs) that is not significantly 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 number 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).

## 6. 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 https://investors.zooplus.com under corporate governance in the investor relations section.

## 7. Non-financial statement pursuant to Sections 289b (3) and 315b (3) HGB

The non-financial report pursuant to Sections 289b (3) and 315b (3) HGB can be accessed at https://investors.zooplus.com/en/investorrelations/reports-and-publications/financial-reports/ as a separate chapter of the Annual Report 2019.

## 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 further gains from these developments. Based on these trends, the Management Board expects the Group to continue to grow in 2020.

The Management Board

| Dr. Cornelius Patt | Andreas Maueröder | Florial Welz | Dr. Mischa Ritter |
|---|---|---|---|

Munich, March 23, 2020

## Consolidated financial statements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# Consolidated balance sheet as of December 31, 2019 according to IFRS

## Assets

| in EUR | | Note no. | 31 / 12 / 2019 | 31 / 12 / 2018* |
|---|---|---|---|---|
| A. | NON-CURRENT ASSETS | | | |
| I. | Property, plant and equipment | 5 | 5,473,134.45 | 55,890,965.98 |
| II. | Right-of-use assets | 27 | 80,993,794.70 | n / a |
| III. | Intangible assets | 6 | 12,766,501.41 | 14,156,165.66 |
| IV. | Deferred tax assets | 7 | 3,640,210.13 | 0.00 |
| | **Non-current assets, total** | | **102,873,640.69** | **70,047,131.64** |
| B. | CURRENT ASSETS | | | |
| I. | Inventories | 8 | 117,706,457.83 | 107,559,691.30 |
| II. | Advance payments | 9 | 2,964.56 | 448,104.13 |
| III. | Accounts receivable | 10 | 27,714,052.93 | 28,144,164.99 |
| IV. | Other current assets | 11 | 47,722,497.91 | 35,157,488.65 |
| V. | Tax receivables | 7 | 642,176.82 | 885,554.04 |
| VI. | Cash and cash equivalents | 13 | 64,293,396.36 | 59,521,301.59 |
| | **Current assets, total** | | **258,081,546.41** | **231,716,304.70** |
| | | | **360,955,187.10** | **301,763,436.34** |

* The previous year's figures have been adjusted. Please refer to section 2.1.1 of the notes to the consolidated financial statements.

## Equity and liabilities

| in EUR | | Note no. | 31 / 12 / 2019 | 31 / 12 / 2018* |
|---|---|---|---|---|
| A. | EQUITY | | | |
| I. | Subscribed capital | 14 | 7,146,688.00 | 7,143,278.00 |
| II. | Capital reserves | 14, 15 | 102,827,311.58 | 100,794,343.16 |
| III. | Other reserves | 14, 12 | – 2,046,551.79 | – 1,765,361.28 |
| IV. | Profit / loss for the period and profit / loss carried forward | 14 | – 7,155,873.94 | 4,911,555.33 |
| | **Equity, total** | | **100,771,573.85** | **111,083,815.21** |
| B. | NON-CURRENT LIABILITIES | | | |
| I. | Provisions | 15, 19 | 0.00 | 320,792.97 |
| II. | Deferred tax liabilities | 7 | 1,800.18 | 821,754.13 |
| III. | Lease liabilities | 27 | 61,812,970.16 | 40,255,160.14 |
| | **Non-current liabilities, total** | | **61,814,770.34** | **41,397,707.24** |
| C. | CURRENT LIABILITIES | | | |
| I. | Accounts payable | 16 | 125,050,354.18 | 99,734,714.98 |
| II. | Derivative financial instruments | 12 | 361,968.47 | 52,243.23 |
| III. | Other current liabilities | 18 | 31,751,585.63 | 25,089,180.88 |
| IV. | Contract liabilities | 20 | 14,006,642.19 | 11,958,408.22 |
| V. | Tax liabilities | 7 | 235,956.43 | 122,733.18 |
| VI. | Lease liabilities | 27 | 20,429,538.30 | 9,757,572.14 |
| VII. | Provisions | 15, 19 | 6,532,797.71 | 2,567,061.26 |
| | **Current liabilities, total** | | **198,368,842.91** | **149,281,913.89** |
| | | | **360,955,187.10** | **301,763,436.34** |

# Consolidated statement of comprehensive income as of January 1 to December 31, 2019 according to IFRS

| in EUR | Note no. | 2019 | 2018 |
|---|---|---|---|
| Sales | 20 | 1,523,695,588.27 | 1,341,701,106.40 |
| Other income | 21 | 9,477,982.71 | 8,560,949.98 |
| Own work capitalized | 22 | 2,092,487.00 | 2,800,632.00 |
| Cost of materials | | – 1,082,089,671.35 | – 956,772,788.98 |
| Personnel expenses | 23 | – 55,321,211.58 | – 47,079,267.43 |
| of which cash | | (– 53,430,430.86) | (– 45,355,837.90) |
| of which stock-based and non-cash | 15 | (– 1,890,780.72) | (– 1,723,429.53) |
| Impairment losses on financial assets | 10, 31 | – 4,092,738.58 | – 2,746,211.37 |
| Other expenses | 24 | – 381,991,027.71 | – 337,895,952.30 |
| of which logistics / fulfillment expenses | | (– 278,614,822.14) | (– 263,752,148.70) |
| of which marketing expenses | | (– 50,850,723.29) | (– 29,100,204.92) |
| of which payment transaction expenses | | (– 12,606,317.02) | (– 11,418,925.78) |
| of which other expenses | | (– 39,919,165.26) | (– 33,624,672.90) |
| **Earnings before interest, taxes, depreciation and amortization** | | **11,771,408.76** | **8,568,468.30** |
| Depreciation and amortization | 5, 6, 27 | – 26,255,596.89 | – 10,079,830.99 |
| Financial income | 25 | 250.41 | 440.88 |
| Financial expenses | 25, 27 | – 1,427,493.43 | – 770,879.24 |
| **Earnings before taxes** | | **– 15,911,431.15** | **– 2,281,801.04** |
| Taxes on income | 7 | 3,844,001.88 | 177,210.36 |
| **Consolidated net loss** | | **– 12,067,429.27** | **– 2,104,590.68** |
| **Other gains and losses (after taxes)** | | | |
| Differences from currency translation | 14 | – 73,597.16 | – 692,103.52 |
| Hedge reserve | 14, 12 | – 207,593.35 | 306,198.60 |
| **Items subsequently reclassified to profit or loss** | | **– 281,190.51** | **– 385,904.92** |
| **Total comprehensive income** | | **– 12,348,619.78** | **– 2,490,495.60** |
| **Earnings per share** | | | |
| Basic | 26 | – 1.69 | – 0.29 |
| Diluted | 26 | – 1.69 | – 0.29 |

# Consolidated statement of cash flows from January 1 to December 31, 2019 according to IFRS

| in EUR | Note no. | 2019 | 2018* |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Earnings before taxes | | – 15,911,431.15 | – 2,281,801.04 |
| Adjustments for: | | | |
| Depreciation and amortization | 5, 6, 27 | 26,255,596.89 | 10,079,830.99 |
| Non-cash personnel expenses | 15 | 1,890,780.72 | 1,723,429.53 |
| Loss from the disposal of fixed assets | | 68,204.76 | 0.00 |
| Other non-cash business transactions | | – 1,365,184.73 | – 588,072.85 |
| Interest expenses and similar expenses | 25, 27 | 1,427,493.43 | 770,879.24 |
| Interest income and similar income | 25 | – 250.41 | – 440.88 |
| Changes in: | | | |
| Inventories | 8 | – 10,146,766.53 | – 3,017,624.68 |
| Advance payments | 9 | 445,139.57 | 180,136.35 |
| Accounts receivable | 10 | 430,112.06 | – 1,756,205.67 |
| Other current assets | 11 | – 12,698,120.05 | – 7,682,672.15 |
| Accounts payable | 16 | 25,386,905.53 | 21,530,512.04 |
| Other current liabilities | 18 | 6,669,931.91 | – 708,267.76 |
| Contract liabilities | 20 | 2,048,233.97 | 13,191,756.32 |
| Current provisions | 15, 19 | 3,965,736.45 | – 4,880,677.66 |
| Non-current provisions | 15, 19 | – 320,792.97 | – 869,267.19 |
| Deferred income | | 0.00 | – 2,928,004.42 |
| Income taxes paid | 7 | – 33,789.96 | – 1,099,127.94 |
| Interest received | 25 | 250.41 | 440.88 |
| **Cash flows from operating activities** | | **28,112,049.90** | **21,664,823.11** |
| **Cash flows from investing activities** | | | |
| Payments for property, plant and equipment / intangible assets | 5, 6 | – 3,235,644.63 | – 7,330,312.47 |
| **Cash flows from investing activities** | | **– 3,235,644.63** | **– 7,330,312.47** |
| **Cash flows from financing activities** | | | |
| Proceeds from capital increase | 14 | 145,597.70 | 244,629.00 |
| Payments for the redemption of finance lease liabilities | 27 | – 20,024,353.15 | – 5,524,371.74 |
| Interest paid | 25 | – 207,172.19 | – 770,879.24 |
| **Cash flows from financing activities** | | **– 20,085,927.64** | **– 6,050,621.98** |

*(Continued on next page)*

| in EUR | Note no. | 2019 | 2018* |
|---|---|---|---|
| Currency effects on cash and cash equivalents | | – 18,382.86 | 8,461.31 |
| Change in cash and cash equivalents due to changes in the scope of consolidation | | 0.00 | 37,708.71 |
| **Net change of cash and cash equivalents** | | **4,772,094.77** | **8,330,058.68** |
| Cash and cash equivalents at the beginning of the period | 13 | 59,521,301.59 | 51,191,242.91 |
| Cash and cash equivalents at the end of the period | 13 | 64,293,396.36 | 59,521,301.59 |
| **Composition of cash and cash equivalents at the end of the period** | | | |
| Cash on hand, bank deposits | | 64,293,396.36 | 59,521,301.59 |
| | | **64,293,396.36** | **59,521,301.59** |

* The previous year's figures have been adjusted. Please refer to section 2.1.1 of the notes to the consolidated financial statements.

# Consolidated statement of changes in equity from January 1 to December 31, 2019 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, 2019** | **7,143,278.00** | **100,794,343.16** | **– 1,765,361.28** | **4,911,555.33** | **111,083,815.21** |
| Increase from stock options | 3,410.00 | 2,032,968.42 | 0.00 | 0.00 | 2,036,378.42 |
| Currency translation differences | 0.00 | 0.00 | – 73,597.16 | 0.00 | – 73,597.16 |
| Net loss for 2019 | 0.00 | 0.00 | 0.00 | – 12,067,429.27 | – 12,067,429.27 |
| Hedge reserve | 0.00 | 0.00 | – 207,593.35 | 0.00 | – 207,593.35 |
| **As of December 31, 2019** | **7,146,688.00** | **102,827,311.58** | **– 2,046,551.79** | **– 7,155,873.94** | **100,771,573.85** |
| **As of January 1, 2018** | **7,137,578.00** | **98,831,984.63** | **– 1,379,456.36** | **7,016,146.01** | **111,606,252.28** |
| Increase from stock options | 5,700.00 | 1,962,358.53 | 0.00 | 0.00 | 1,968,058.53 |
| Currency translation differences | 0.00 | 0.00 | – 692,103.52 | 0.00 | – 692,103.52 |
| Net loss for 2018 | 0.00 | 0.00 | 0.00 | – 2,104,590.68 | – 2,104,590.68 |
| Hedge reserve | 0.00 | 0.00 | 306,198.60 | 0.00 | 306,198.60 |
| **As of December 31, 2018** | **7,143,278.00** | **100,794,343.16** | **– 1,765,361.28** | **4,911,555.33** | **111,083,815.21** |

# Notes to the consolidated financial statements

**as of December 31, 2019, 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 recorded 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 Management Board prepared the consolidated financial statements as of March 23, 2020, 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 of the consolidated financial statements

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 2019 financial year have been prepared in accordance with International Financial Reporting Standards (IFRS) and the interpretations of the IFRS Interpretations Committee (IFRS IC). By complying with these standards and interpretations, the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the zooplus Group. The consolidated financial statements are published in the German Federal Gazette (Bundesanzeiger).

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

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

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

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

*2.1.1 Amendments to the accounting and valuation methods and disclosures*

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

| Standards and interpretations | Title | Mandatory adoption | Adopted by the EU | Effect on zooplus |
|---|---|---|---|---|
| IFRS 9 | Amendments to IFRS 9 - Prepayment features with negative compensation | January 1, 2019 | Yes | No effect |
| IFRS 16 | Leases | January 1, 2019 | Yes | See information below the table |
| IAS 19 | Amendments to IAS 19 - Plan Amendment, Curtailment or Settlement | January 1, 2019 | Yes | No effect |
| IAS 28 | Long-term Interests in Associates and Joint Ventures | January 1, 2019 | Yes | No effect |
| Diverse IFRS | Annual Improvements to IFRSs (2015 - 2017 cycle) - Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs | January 1, 2019 | Yes | No effect |
| IFRIC 23 | Accounting of Uncertainty over Income Tax Treatments | January 1, 2019 | Yes | No effect |

## Adoption of IFRS 16

The first-time adoption of IFRS 16 used the modified retrospective approach without adjusting prior-year numbers in accordance with the standard's transition provisions. All reclassifications and adjustments resulting from the first-time adoption were recognized in the opening balance sheet as of January 1, 2019.

Upon the first-time adoption of IFRS 16, the Group recognized lease liabilities for leases previously classified as operating leases under IAS 17. These liabilities are measured at the present value of the remaining lease payments discounted at the incremental borrowing rate of the lessee as of January 1, 2019. The weighted-average incremental borrowing rate of the lessee amounted to 1.7 % and was applied to all lease liabilities as of January 1, 2019.

For leases previously classified as finance leases, the carrying amount of the lease asset under IAS 17 immediately before the first-time adoption of IFRS 16 and the carrying amount of the lease liability under IAS 17 are used as the initial carrying amounts of the rights-of-use and lease liability under IFRS 16. The valuation principles of IFRS 16 are then only applied in subsequent measurement. This resulted in valuation adjustments of kEUR 703 for variable, index-based lease payments and kEUR 1,556 due to differing assessments of extension options. The corresponding valuation adjustments made to lease liabilities are recognized as adjustments of the related rights-of-use immediately following the initial recognition.

The Group has used the following simplifications upon the adoption of IFRS 16:

- Leases with a remaining term of less than 12 months as of January 1, 2019, or as of the beginning of the contract, are accounted for as current leases.
- Initial direct costs were disregarded in the measurement of the right-of-use upon first-time adoption.

The Group decided to refrain from reassessing whether lease agreements concluded before the transition date included a lease at the date of first-time adoption. Instead, the original assessment under IAS 17 and IFRC 4 was maintained.

**in kEUR**

| | |
|---|---|
| Obligations specified under operating leases as of December 31, 2018 | 34,339 |
| (Less): Current leases and low-value leases recognized as an expense on a straight-line basis | – 996 |
| | **33,343** |
| Discounted at the lessee's incremental borrowing rate upon first-time adoption of IFRS 16 | 30,997 |
| Plus: Finance lease liabilities recognized as of December 31, 2018 | 50,013 |
| Plus: Adjustments due to differing assessments of extension options | 1,556 |
| Plus: Adjustments due to changes in indices affecting variable payments | 703 |
| **Lease liabilities recognized as of January 1, 2019** | **83,269** |
| thereof current | 18,079 |
| thereof non-current | 65,190 |
| | **83,269** |

The related rights-of-use are recognized in the amount of the corresponding lease liabilities adjusted for any lease payments rendered in advance or deferred on the balance sheet as of December 31, 2018. No onerous leases existed upon first-time adoption of IFRS 16 so that there was no need for impairment of rights-of-use.

The change in accounting policies had the following impact on balance sheet items as of January 1, 2019:

- Property, plant and equipment – a decrease of kEUR 50,043
- Rights-of-use – an increase of kEUR 83,298
- Lease liabilities – an increase of kEUR 33,255

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, 2019:

| Standards and interpretations | Title | Mandatory adoption | Adopted by the EU | Effect on zooplus |
|---|---|---|---|---|
| IFRS 3 | Amendments to IFRS 3 – Definition of a Business | January 1, 2020 | No | No effect |
| IFRS 17 | Insurance Contracts | January 1, 2020 | No | No effect |
| IFRS 9, IAS 39 and IFRS 7 | Amendments to IFRS 9, IAS 39 and IFRS 7: Reform of reference interest rates | January 1, 2020 | Yes | No effect |
| IAS 1 and IAS 8 | Amendments to IAS 1 and IAS 8 - Definition of Material | January 1, 2020 | Yes | No effect |
| IAS 1 | Amendments to IAS 1: Classification of liabilities as current or non-current | January 1, 2022 | No | No effect |
| Conceptual framework | Changes in references to the Framework in IFRS Standards | January 1, 2020 | Yes | No effect |

From today's perspective, the adoption 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 early.

In the financial year 2019, corrections were made to the disclosure of contract assets, other current assets, contract liabilities and other current liabilities in the balance sheet without affecting income. The previous year's figures were adjusted accordingly. As a result of the change in presentation, contract assets are EUR 19.0 m lower, other current assets EUR 19.0 m higher, contract liabilities EUR 5.2 m lower and other current liabilities EUR 5.2 m higher.

## 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% | 110 | Service company for Great Britain |
| zooplus italia s.r.l., Genoa, Italy | 100% | 315 | Service company for Italy |
| zooplus polska sp. z o.o., Krakow, Poland | 100% | 835 | Service company for Poland |
| zooplus services ESP S.L., Madrid, Spain | 100% | 590 | Service company for Spain |
| zooplus Pet Supplies Import and Trade ltd., Istanbul, Turkey | 100% | 906 | Sales company for Turkey |
| zooplus france s.a.r.l., Strasbourg, France | 100% | 466 | Service company for France |
| zooplus Nederland B.V., Tilburg, the Netherlands | 100% | 169 | Service company for the Netherlands |
| zooplus Austria GmbH, Vienna, Austria | 100% | 194 | Service company for Austria |
| zoolog Services sp. z o.o, Wroclaw, Poland | 100% | 1 | Service company for Poland |
| Tifuve GmbH, Munich, Germany | 100% | 15 | (Dormant company) |
| zooplus EE TOV, Kiev, Ukraine | 100% | – 8 | (Dormant company) |
| zooplus d.o.o., Zagreb, Croatia | 100% | – 15 | (Dormant company) |

The Turkish service company zooplus Pet Supplies Import and Trade ltd., Istanbul, Turkey, discontinued operations effective December 15, 2019. A sale or liquidation of the company is not planned for the time being.

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 2019 financial year under Section 264 (3) HGB.

## 2.3 Consolidation methods

Subsidiaries are all entities controlled by the Group. The Group controls a subsidiary when it is exposed to risk through variable economic returns or when it has rights to these variable returns based on its involvement with the subsidiary and has the ability to exert power over the 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 deconsolidated 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 sold in the 2019 financial year. In the fourth quarter of the reporting year, zooplus AG purchased 100% of the interests in zoolog Services sp. z o.o., Wroclaw, Poland. Due to its economic substance, the transaction is not to be classified as a business combination as defined by IFRS 3.

Group-internal transactions, balances and unrealized gains from transactions between Group companies are eliminated. Unrealized losses are also eliminated unless the transaction indicates that the transferred assets may be impaired. 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) for 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 subdivided. 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. For this reason, the Management Board also manages the company based on key figures for the business as a whole. The Group does not prepare segment reporting because the business is not divided into segments.

No individual customer contributes more than 10 % to overall sales.

The breakdown of sales by country and product group is presented in Note 20. The Group's key current and non-current assets are all held in their entirety by zooplus AG.

## 2.5 Foreign currency translation

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

*2.5.2 Transactions and balances*
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the time of the transaction or, in the case of revaluations, at the time of valuation. Gains and losses resulting from these transactions and the translation of foreign currency-denominated monetary assets and liabilities are recognized in the statement of comprehensive income unless they are to be recognized in equity as qualified cash flow hedges and qualified net investment hedges. There were no net investment hedges in the 2019 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 reporting date, assets and liabilities are translated using the exchange rate on the reporting date.
- Income and expenses are translated at average exchange rates in the statement of comprehensive income unless this average is not a reasonable approximation of the cumulative effects of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rates prevailing on the date of the transactions).
- All resulting translation differences are recognized as a separate item in "other reserves" under equity.

## 2.6 Property, plant and equipment

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

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

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

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

- Other equipment 3 – 15 years
- 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 reporting date and adjusted when necessary. In accordance with IAS 36, an asset's carrying amount is impaired as soon as the carrying amount exceeds the asset's recoverable amount.

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

## 2.7 Intangible assets

*2.7.1 Software licenses*

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

*2.7.2 Proprietary software*

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

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

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

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

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

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

## 2.8 Impairment of non-financial assets

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

## 2.9 Financial investments and other financial assets

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

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

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

*2.9.2 Recognition and derecognition*
Financial assets are recognised for the first time at the time when zooplus becomes a contractual party to a financial instrument. Regular purchases or sales of financial assets are recognized on the trading day that the Group committed to the asset's purchase or sale. Financial assets are derecognized when the rights to payments from the financial assets have expired or have been transferred, and the Group has transferred essentially all of the risks and opportunities associated with their ownership.

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

*Debt instruments*

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

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

*Equity instruments*

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

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

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

*2.9.4 Impairment*

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

A three-stage model is used to determine the extent of risk provisioning, according to which the initial recognition of risk provisions is generally based on twelve-month loss expectations and, in the event of a significant deterioration in credit risk, the expected total losses.

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

For reasons of materiality, no impairment losses are recognised on cash and cash equivalents.

## 2.10 Financial liabilities

Financial liabilities mainly comprise trade payables, derivatives with negative market values, lease liabilities and other financial liabilities. Financial liabilities within the meaning of IFRS 9 are classified as measured at amortized cost (FLAC) or at fair value through profit or loss (FVthP/L).

Financial liabilities within the meaning of IFRS 9 are generally measured at fair value upon initial recognition and at amortised cost (FLAC) in subsequent measurement using the effective interest method. Financial liabilities measured at fair value through profit or loss that were designated as at fair value through profit or loss upon initial recognition are measured in subsequent periods as at fair value through profit or loss (FVthP/L). Financial liabilities not measured at fair value through profit or loss are initially measured after deduction of transaction costs. A financial liability is derecognized when the obligations specified in the contract are fulfilled.

## 2.11 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 current legal right to offset the recognized amounts, 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.

## 2.12 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 reporting date. The method of recognizing gains and losses resulting from changes in fair value 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 2018 or 2019 financial year.

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

The fair values of the various derivative financial instruments used for hedging purposes and the changes in the reserves for cash flow hedges are outlined in the information on derivative financial instruments in Note 12.

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 reporting date or as a current asset or current liability if the remaining term is shorter. Derivative financial instruments held for trading purposes are reported as current assets or liabilities.

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

For hedges of foreign currency purchases or sales, ineffectiveness may arise if the timing of the forecast transaction changes from the original estimate or if changes in the derivative's credit risk occur.

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

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

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 acquisition costs also contain gains and losses from qualified cash flow hedges transferred from equity that relate to purchases of inventories. The net realizable value is the estimated selling price in the ordinary course of business less the necessary variable selling costs. The average cost method is used to measure the value of inventories.

## 2.14 Accounts receivable

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

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

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

## 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 as of the 2018 or 2019 reporting dates.

## 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 do not currently hold treasury shares.

## 2.17 Accounts payable and other liabilities

Accounts payable are payment obligations for goods and services received by the Group prior to the end of the financial year. 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. Any transaction costs are recognised directly in equity. In subsequent periods, they are measured at amortized costs by applying the effective interest method.

## 2.18 Income taxes

Income tax expenses or benefits for the period are equivalent to the taxes owed on taxable income in the current period, based on the applicable income tax rate of a tax jurisdiction and adjusted for changes in deferred tax assets and liabilities attributable to temporary differences and tax loss carryforwards.

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

Deferred taxes are recognized for all temporary differences between the tax base of the assets or liabilities and their carrying amounts in the IFRS consolidated financial statements, as well as for losses carried forward (the "liability method"). However, deferred taxes are not recognized on the date of initial recognition or thereafter when 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 taxes are measured using the tax rates (and tax regulations) that are already in effect on the reporting date or those that 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 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. There are no material uncertainties as of the reporting date.

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 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. Actual tax receivables and tax liabilities are offset if the company has an enforceable right to offset, and the intention is to either settle on a net basis or settle the associated liability with the simultaneous realization of the receivable.

Deferred and actual taxes are recognized in the statement of comprehensive income unless they relate to items that are to be recognized directly in equity or "other gains and losses." In this case, the taxes are also recorded in equity or "other gains and losses."

## 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 reporting 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 the Group's employees and the Management Board receive share-based remuneration in the form of equity instruments or cash.

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

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

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

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

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

## 2.20 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. No provisions are recognized for future operating losses.

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

Provisions are measured at the present value on the basis of management's best estimate of the expenses required to settle the present obligation at the end of the period. This is 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 recognized when the corresponding performance obligation has been met; namely, when the control over the goods or services has been transferred to the customer. Control is transferred either at a point in time or over a period of time. Control over goods sold is transferred at a point in time. In the case of discount plans, sales are recognized over a period of time according to their term.

Sales correspond to the contractually agreed transaction price and include the consideration zooplus is likely to receive in exchange for the transfer of the promised goods or services to the customer. Sales from the sale of goods are recognized at their net value (after deducting VAT, returns, early payment deductions, customer discounts and rebates).

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

Accounts receivable are due within 0 and 14 days.

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

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 the collected points for products. At the time of sale, a contract liability for the points (separate performance obligation) is recorded. The proceeds from the points are recognized when they are redeemed or when they expire 12 months after the original purchase. The consideration received is split among the products sold and the bonus points awarded based on relative individual selling prices, whereby the individual selling price of the bonus points is equal to their fair value. The fair value of the bonus points is determined based on the sales price of the products and the probability of the bonus points' redemption.

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

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

## 2.22 Interest income

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

## 2.23 Leases

Lease contracts in which the Group as lessee carries the material opportunities and risks associated with ownership of the lease asset were classified as finance leases until December 31, 2018. Finance leases were capitalized at the beginning of the lease term at the lower of the fair value of the lease assets and the present value of the minimum lease payments. At the same time, a lease liability was recognized under current or non-current liabilities in the amount of the net present value of the minimum lease payments.

Each lease installment was divided into an interest and a redemption portion. The interest portion of the lease payment was recognized in profit or loss over the term of the lease in the statement of comprehensive income, resulting in a constant periodic interest expense on the residual value of the liability. Assets acquired under a finance lease were depreciated over the shorter of the economic useful life of the asset or the term of the lease.

Since January 1, 2019, leases have been accounted for as a right-of-use and a corresponding lease liability as of the date the Group can use the lease asset.

Lease assets and liabilities are measured at their present value upon initial recognition. Lease liabilities include the present value of the following lease payments:

- Fixed payments (including de facto fixed payments, less any lease incentives to be received)
- Variable lease payments that are linked to an index or (interest) rate, initially measured at the index or (interest) rate on the date the asset was made available
- Expected payments of the Group from the utilization of residual value guarantees
- The exercise price of a call option if the exercise by the lessee is sufficiently likely
- Penalty payments related to the termination of leases provided the term considers that the Group will exercise a termination option

The measurement of lease liabilities also takes lease payments into consideration due to the sufficiently likely exercise of termination options.

Lease payments are discounted at the implied interest rate underlying the lease when the rate can be determined. Otherwise, the discount rate corresponds to the lessee's incremental borrowing rate, i.e., the interest rate a lessee would need to pay if he or she had to borrow the funds necessary to obtain an asset of similar value and condition in a similar economic environment for a similar term and with similar security.

The Group determines the incremental borrowing rate as follows:

When possible, the financing obtained from third parties by the individual lessee is used as a starting point. These are adjusted to the extent necessary to take into account any changes in the conditions since the receipt of the financing. Where there is no recent financing from third parties, the Group uses a risk-free interest rate as a starting point and adjusts it to reflect the credit risk of the lessee. Other adjustments include those for the lease term, the economic environment, the lease currency and the collateralization. The cash-effective portion of interest expenses is reported under cash flow from financing activities.

The Group is exposed to potential future increases in variable lease payments that could result from a change in an index or in an interest rate. These potential changes in lease payments are not reflected in the lease liability until they become effective. As soon as changes in an index or interest rate affect the lease payments, the lease liability is adjusted against the right-of-use. Lease installments are divided into principal and interest payments. The interest portion is recognized in profit or loss over the lease term resulting in a constant periodic interest expense on the residual value of the liability.

Rights-of-use are measured at cost and consist of the following:

- Amount of the initial measurement of the lease liability
- All lease payments made before the lease asset was available, less any lease incentives received
- All initial direct costs incurred by the lessee
- Estimated costs the lessee will incur when dismantling or removing the underlying asset, restoring the site where the asset is located and rebuilding the underlying asset into the condition agreed upon in the lease contract.

The right-of-use assets are amortized on a straight-line basis over the useful life or the remaining term of the lease, whichever is shorter. When the Group considers the exercise of a call option as sufficiently likely, the right-of-use is amortized over the useful life of the underlying asset.

Payments for short-term leases and low-value leases are recognized in profit or loss on a straight-line basis. Short-term leases are leases with a term of up to 12 months. Low-value assets include, among others, IT equipment and small office furniture.

A number of the Group's real estate leases include extension and termination options. Such contract terms are used to give zooplus maximum operational flexibility with regard to the assets used by the group. The majority of the existing extension and termination options can only be exercised by the Group and not the respective lessor.

In defining the term of a lease, the management takes all facts and circumstances into consideration that offer an economic incentive to exercise extension options and not exercise termination options. Changes in the terms resulting from the exercise of extension or termination options are only taken into consideration for the contract term when an extension or non-exercise of a termination option is sufficiently likely.

### 2.24 Business transactions after the reporting date

Business transactions that occurred prior to the reporting date but became known after the reporting date will be accounted for in the consolidated financial statements. Material business transactions that occurred after the reporting 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 (currency risk and interest rate risk), credit risks and liquidity risks. The Group and its product range are in competition with other providers.

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

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

When all relevant criteria are met, hedge accounting is applied to eliminate the accounting-related mismatch between the hedging instrument and the hedged item. As a result, inventories are recognized at the hedged exchange rates for the corresponding purchases. For details, see Notes 2.12 and 12.

*3.1.1 Market risk*

### 3.1.1.1 Currency risk

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

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

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

IFRS 7 requires the use of sensitivity analyses when presenting market risks, with these analyses illustrating the effects of hypothetical changes to the relevant risk variables on the net profit ⁄ loss for the period and equity. The following representation is one-dimensional and does not take into account the feedback effects in international purchasing or on the manufacturers. Tax effects are also not considered. The table below shows the positive and negative effects if the euro were to gain or lose 10% of its value versus key currencies on the reporting date, assuming all other variables remain constant. The effects break down as follows:

| Currency | 1 Euro = 1 MU FC Rate as of December 31, 2019 | Effect on Group net result at +10% kEUR | Effect on Group net result at – 10% kEUR | Effect on other reserves at +10% kEUR | Effect on other reserves at – 10% kEUR |
|---|---|---|---|---|---|
| GBP | 0.8508 | 403 | – 492 | – 1,569 | 1,918 |
| PLN | 4.2568 | – 945 | 1,155 | 0 | 0 |
| USD | 1.1234 | 176 | – 215 | 0 | 0 |
| CHF | 1.0854 | – 143 | 175 | 0 | 0 |

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

### 3.1.1.2 Interest rate risk

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

*3.1.2 Credit risk*

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

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

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

*Impairment of financial assets*

Accounts receivable from the sale of merchandise are the only type of financial assets at zooplus that are subject to the model of expected credit losses.

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

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

In order to measure expected credit losses, accounts receivable were aggregated on the basis of common credit risk characteristics and the number of days overdue. The expected loss ratios are based on the payment profiles of sales over a period of 3 years prior to January 1, 2019 and the corresponding historical defaults in this period.

Impairment for accounts receivable was determined on this basis. For further details, please refer to Note 10.

Receivables are impaired when the debt is uncollectable, a customer has filed personal insolvency or as a result of the statute of limitations. Accounts receivable are sold after the debt recovery process is completed. After the sale, the Group no longer retains the related risks and opportunities.

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

*3.1.3 Liquidity risk*

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

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

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

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

| kEUR | Up to 3 months | 3 months to 1 year | Over 1 year |
|---|---|---|---|
| **As of December 31, 2019** | | | |
| Lease liabilities | 6,041 | 18,627 | 61,210 |
| Accounts payable | 125,050 | 0 | 0 |
| Other liabilities (financial instruments pursuant to IFRS 7) | 4,677 | 0 | 0 |
| Derivative financial instruments (gross settlement) | | | |
| Cash outflow | 8,834 | 8,834 | 0 |
| Cash inflow | 8,634 | 8,605 | 0 |
| **As of December 31, 2018** | | | |
| Finance lease liabilities | 2,440 | 7,318 | 40,255 |
| Accounts payable | 99,735 | 0 | 0 |
| Other liabilities (financial instruments pursuant to IFRS 7) | 4,253 | 0 | 0 |
| Derivative financial instruments (gross settlement) | | | |
| Cash outflow | 4,650 | 17,971 | 0 |
| Cash inflow | 4,657 | 17,963 | 0 |

## 3.2 Capital management

The Group's main goals with respect to capital management are to maintain and ensure an optimal capital structure to reduce the cost of capital, generate liquidity, actively manage working capital and comply with financial covenants (see Item 17).

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 2019 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 as of December 31, 2019 was 28 % (2018: 37 %). The decline was primarily a result of the first-time adoption of IFRS 16.

| kEUR | 2019 | 2018 |
|---|---|---|
| Equity | 100,772 | 111,084 |
| Total equity and liabilities | 360,955 | 301,763 |
| **Equity ratio in %** | **28 %** | **37 %** |

## 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: The fair value of financial instruments traded in active markets (such as listed derivatives and equity instruments) is based on quoted market prices at the end of the reporting period.
- Level 2: The fair value of financial instruments that are not traded in an active market (such as OTC derivatives) is determined using valuation techniques that maximize the use of observable market data and minimize the use of company-specific estimates. If all significant inputs to the fair value measurement of an instrument are observable, the instrument is assigned to Level 2.
- Level 3: If one or more of the significant input factors are not observable, the instrument is classified in level 3.

The following table shows the assets and liabilities measured at fair value as of December 31, 2019.

| kEUR | Level 1 | Level 2 | Level 3 |
|---|---|---|---|
| **Liabilities** | | | |
| Derivative financial instruments used as hedging instruments | 0 | 362 | 0 |

The weighted average strike price for outstanding hedging instruments is GBP 0.852 ⁄ EUR.

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

| kEUR | Level 1 | Level 2 | Level 3 |
|---|---|---|---|
| **Liabilities** | | | |
| Derivative financial instruments used as hedging instruments | 0 | 52 | 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 not traded on an active market (for example, over-the-counter derivatives) is determined using valuation methods. Fair value is determined using a valuation method that relies as much as possible on market data and as little as possible on company-specific data. If all data required to determine the fair value are observable, the instrument is assigned to Level 2. If important pieces of data are not based on observable market data to a greater or lesser extent, the instrument is assigned to Level 3.

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

zooplus determines the fair value of derivatives designated as hedging instruments on the basis of the present value of the difference between the derivative measured at the forward rate and the closing rate.

## 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 reporting 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 items above 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 reporting 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

Inventories were measured by estimating the recoverable amount in the ordinary course of business less any necessary variable selling costs (net realizable value) based on historical data.

### Accounts receivable

Impairment on accounts receivable was calculated using the expected loss model in the context of the simplified impairment approach.

The assumptions and methods applied for the estimation are described in Note 10.

### Customer loyalty program

Various estimates are used to measure the obligations arising from the loyalty program. Bonus points awarded but not yet redeemed are deferred fair value, whereas 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. Obligations from the loyalty program are recorded as contract liabilities. Please refer to Note 20.

### Share-based remuneration

The costs arising as a result of granting equity instruments and cash-settled or equity-settled share-based payments to employees and the Management Board are measured at the fair value of the instruments granted on the grant date. To estimate the fair value of share-based payments, the most suitable measurement method must first be determined based 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 15.

### Deferred taxes

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

The Group has domestic corporate tax loss carryforwards in the amount of EUR 14.7 m (previous year: EUR 3.1 m) as well as trade tax loss carryforwards in the amount of EUR 15.0 m (previous year: EUR 2.9 m). Due to sustained positive consolidated net profit in prior years, and on the basis of the future corporate planning and the existing loss carryover possibilities, the Management Board assumes that these loss carryforwards can actually be used in full. If the actual results deviate from the expectations of the Management Board, this could have an adverse effect on the net assets, financial position and results of operations. Further details on deferred taxes are explained in Note 7.

## 5. Property, plant and equipment

| kEUR | Other equipment, operating and office equipment | Finance leasing for buildings | Total |
|---|---|---|---|
| Acquisition costs<br>As of January 1, 2018 | 6,815 | 13,603 | 20,418 |
| Additions | 3,337 | 44,802 | 48,139 |
| Foreign currency valuation | – 12 | 0 | – 12 |
| Disposals | – 159 | 0 | – 159 |
| **As of December 31, 2018** | **9,981** | **58,405** | **68,386** |
| Accumulated depreciation<br>As of January 1, 2018 | 2,848 | 2,616 | 5,464 |
| Additions | 1,443 | 5,747 | 7,190 |
| Foreign currency valuation | – 4 | 0 | – 4 |
| Disposals | – 155 | 0 | – 155 |
| **As of December 31, 2018** | **4,132** | 8,363 | 12,495 |
| **Carrying amounts as of December 31, 2018** | **5,849** | **50,042** | **55,891** |

| kEUR | Other equipment, operating and office equipment | Finance leasing for buildings | Total |
|---|---|---|---|
| Acquisition costs<br>As of December 31, 2018 | 9,981 | 58,405 | 68,386 |
| IFRS 16 reclassification | n / a | – 58,405 | – 58,405 |
| As of January 1, 2019 | 9,981 | n / a | 9,981 |
| Additions | 1,265 | n / a | 1,265 |
| Foreign currency valuation | 31 | n / a | 31 |
| Disposals | – 830 | n / a | – 830 |
| **As of December 31, 2019** | **10,447** | n / a | **10,447** |
| Accumulated depreciation<br>As of December 31, 2018 | 4,132 | 8,363 | 12,495 |
| IFRS 16 reclassification | n / a | – 8,363 | – 8,363 |
| As of January 1, 2019 | 4,132 | n / a | 4,132 |
| Additions | 1,599 | n / a | 1,599 |
| Foreign currency valuation | 5 | n / a | 5 |
| Disposals | – 762 | n / a | – 762 |
| **As of December 31, 2019** | **4,974** | n / a | 4,974 |
| **Carrying amounts as of December 31, 2019** | **5,473** | n / a | 5,473 |

The decline in property, plant and equipment was largely a result of the reclassification of the carrying amount of lease assets of kEUR 50,042 from property, plant and equipment to right-of-use assets in the context of the first-time adoption of IFRS as of January 1, 2019 (see Notes 2.1.1 and 27). 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. As in prior years, there were no indications of impairment in accordance with IAS 36 as of the reporting date.

## 6. Intangible assets

| kEUR | Proprietary software | Software / licenses | Advance payments | Total |
|---|---|---|---|---|
| Acquisition costs<br>As of January 1, 2018 | 4,565 | 13,206 | 438 | 18,209 |
| Additions | 3,001 | 731 | 261 | 3,993 |
| Foreign currency valuation | 0 | – 4 | 0 | – 4 |
| Disposals | 0 | – 145 | 0 | – 145 |
| Reclassifications | 0 | 401 | – 401 | 0 |
| **As of December 31, 2018** | **7,566** | **14,189** | **298** | **22,053** |
| Accumulated amortization<br>As of January 1, 2018 | 535 | 4,605 | 0 | 5,140 |
| Additions | 807 | 2,083 | 0 | 2,890 |
| Foreign currency valuation | 0 | – 3 | 0 | – 3 |
| Disposals | 0 | – 130 | 0 | – 130 |
| **As of December 31, 2018** | **1,342** | **6,555** | **0** | **7,897** |
| **Carrying amounts as of December 31, 2018** | **6,224** | **7,634** | **298** | **14,156** |

| kEUR | Proprietary software | Software / licenses | Advance payments | Total |
|---|---|---|---|---|
| Acquisition costs<br>As of January 1, 2019 | 7,566 | 14,189 | 298 | 22,053 |
| Additions | 2,288 | 636 | 0 | 2,924 |
| Foreign currency valuation | 0 | – 2 | 0 | – 2 |
| Disposals | 0 | – 1,666 | 0 | – 1,666 |
| Reclassifications | 0 | 298 | – 298 | 0 |
| **As of December 31, 2019** | **9,854** | **13,455** | **0** | **23,309** |
| Accumulated amortization<br>As of January 1, 2019 | 1,342 | 6,555 | 0 | 7,897 |
| Additions | 2,001 | 2,310 | 0 | 4,311 |
| Foreign currency valuation | 0 | 0 | 0 | 0 |
| Disposals | 0 | – 1,666 | 0 | – 1,666 |
| **As of December 31, 2019** | **3,343** | **7,199** | **0** | **10,542** |
| **Carrying amounts as of December 31, 2019** | **6,511** | **6,256** | **0** | **12,767** |

Intangible assets consist of concessions, commercial property rights and similar rights, and licenses to such rights and assets whose remaining useful life is a maximum of five years.

In the 2019 financial year, amortization of capitalized development costs amounted to kEUR 2,001 (previous year: kEUR 807) and was recognized in the statement of comprehensive income. Capitalizable development costs of kEUR 2,288 (previous year: kEUR 3,001) for proprietary software were also incurred in the reporting year. Some of these development costs have already been amortized. Research costs were not incurred.

Software ⁄ licenses concern mainly the implementation of standard software and related expenses that can be capitalized. There are no restrictions on the disposal of intangible assets and no intangible assets have been pledged as collateral for debt.

At the time of preparing the consolidated financial statements, there were no indications of an impairment of intangible assets.

## 7. Income taxes

The essential components of income tax income for the 2019 and 2018 financial years are as follows:

| kEUR | 2019 | 2018 |
|---|---|---|
| Actual income taxes | | |
| Current income taxes | – 374 | – 219 |
| Adjustment for actual taxes for previous years | – 7 | 57 |
| Deferred income taxes | | |
| from temporary differences | 308 | – 647 |
| from tax losses carried forward | 3,917 | 986 |
| **Total** | **3,844** | **177** |

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. 32.98 %. 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 32.31 %.

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 2019 and 2018 is as follows:

| kEUR | 2019 | 2018 |
|---|---|---|
| **Earnings before taxes** | **– 15,911** | **– 2,282** |
| Expected income tax benefit (32.98 %) | 5,247 | 752 |
| Deviation from the tax base used for trade taxes | – 65 | – 50 |
| Deviation from the expected tax rate | – 3 | 92 |
| Tax losses carried forward excluding recognized deferred tax assets and impairments | – 211 | – 53 |
| Non-deductible expenses from stock options | – 624 | – 568 |
| Other non-deductible operating expenses | – 319 | – 110 |
| Non-periodic income taxes | – 149 | 57 |
| Other deviations | – 32 | 57 |
| **Effective income tax benefit** | **3,844** | **177** |

Deferred taxes as of the reporting data are as follows:

| kEUR | Deferred tax assets | | Deferred tax assets | |
|---|---|---|---|---|
| | 12 / 31 / 2019 | 12 / 31 / 2018 | 12 / 31 / 2019 | 12 / 31 / 2018 |
| **Deferred taxes** | | | | |
| Derivative financial instruments | 119 | 17 | 0 | 0 |
| Right-of-use assets (previous year: Finance lease assets) | 0 | 0 | 26,401 | 16,502 |
| Lease liabilities | 26,811 | 16,515 | 0 | 0 |
| Tax loss carryforwards | 4,903 | 986 | 0 | 0 |
| Inventories | 167 | 214 | 30 | 0 |
| Provisions | 216 | 0 | 0 | 0 |
| Internally generated intangible assets | 0 | 0 | 2,147 | 2,052 |
| | **32,216** | **17,732** | **28,578** | **18,554** |
| Of which non-current | 21,878 | 14,260 | 19,670 | 15,283 |
| Of which current | 10,338 | 3,472 | 8,908 | 3,271 |
| | **32,216** | **17,732** | **28,578** | **18,554** |

On a net basis, deferred tax liabilities amounted to kEUR 2 (previous year: kEUR 822 ), and deferred tax assets totaled kEUR 3,640 (previous year: kEUR 0) in the 2019 financial year. Deferred tax assets were not recognized for the EUR 5.1 m (previous year: EUR 4.1 m) in foreign tax losses carried forward due to a lack of recoverability. Deferred tax liabilities were not recognized for temporary differences related to interests in subsidiaries.

*Unrecognized temporary differences*
Temporary differences occurred in the amount of kEUR 1,804 (previous year: kEUR 1,730) as a result of the translation of financial statements of foreign subsidiaries denominated in foreign currency. Nevertheless, deferred tax liabilities were not recognized, as the liabilities would only come into play if the subsidiaries were sold, and such a sale is not expected in the foreseeable future.

Various subsidiaries have undistributed profits as of the reporting date which, if paid out as a dividend, would be taxable for the recipient. There is an estimable temporary difference, but no deferred tax liabilities have been recognized as the parent company is in a position to control the timing of this subsidiary's distributions and it is not expected that these results will be distributed in the foreseeable future.

| kEUR | Derivative financial instruments | Right-of-use assets | Lease liabilities | Tax loss carryforwards | Inventories | Provisions | Internally generated intangible assets |
|---|---|---|---|---|---|---|---|
| **January 1, 2018** | 168 | – 3,623 | 3,610 | 0 | 164 | 0 | – 1,329 |
| Charged / credited | | | | | | | |
| in profit or loss | 0 | – 12,879 | 12,905 | 986 | 50 | 0 | – 723 |
| in other comprehensive income | – 151 | 0 | 0 | 0 | 0 | 0 | 0 |
| **December 31, 2018** | **17** | **– 16,502** | **16,515** | **986** | **214** | **0** | **– 2,052** |
| **January 1, 2019** | 17 | – 16,502 | 16,515 | 986 | 214 | 0 | – 2,052 |
| Charged / credited | | | | | | | |
| in profit or loss | 0 | – 9,899 | 10,296 | 3,917 | – 77 | 216 | – 95 |
| in other comprehensive income | 102 | 0 | 0 | 0 | 0 | 0 | 0 |
| **December 31, 2019** | **119** | **– 26,401** | **26,811** | **4,903** | **137** | **216** | **– 2,147** |

As of December 31, 2019, tax liabilities amounted to kEUR 236 (previous year: kEUR 123) and consisted of provisions for corporate taxes related to foreign income taxes. Receivables from income taxes related to German income taxes amounted to kEUR 642 (previous year: kEUR 836), and receivables from income taxes related to foreign income taxes amounted to kEUR 0 (previous year: kEUR 50).

## 8. Inventories

| kEUR | 2019 | 2018 |
|---|---|---|
| Raw materials, consumables and supplies | 1,763 | 2,012 |
| Merchandise | 115,943 | 105,548 |
| **Total** | **117,706** | **107,560** |

Raw materials, consumables and supplies consist mainly of packaging materials for the mail-order business. As of the reporting date, the item "merchandise" was impaired by kEUR 5,851 (previous year: kEUR 5,161). The impairment losses were recognized under cost of materials through profit and loss.

## 9. Advance payments

Advance payments are payments made in advance for upcoming deliveries of inventories.

## 10. 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, 2019:

| December 31, 2019 | not due | 30 days overdue | 30 - 60 days overdue | 60 - 90 days overdue | 90 - 180 days overdue | 180 - 360 days overdue | Over 1 year overdue | Total |
|---|---|---|---|---|---|---|---|---|
| Expected loss ratio | 0.6 % | 2.6 % | 12.3 % | 41.2 % | 93.7 % | 93.5 % | 98.4 % | |
| kEUR | | | | | | | | |
| Gross carrying amount of accounts receivable | 20,024 | 6,568 | 1,247 | 308 | 415 | 951 | 2,705 | 32,218 |
| **Impairment** | **115** | **169** | **154** | **127** | **389** | **889** | **2,661** | **4,504** |

As of December 31, 2019, impairments of kEUR 4,504 were recognized (previous year: kEUR 3,460). Since the beginning of the 2018 financial year, the impairment of accounts receivable has been calculated using the expected loss model in the context of the simplified approach.

| December 31, 2018 | not due | 30 days overdue | 30 - 60 days overdue | 60 - 90 days overdue | 90 - 180 days overdue | 180 - 360 days overdue | Over 1 year overdue | Total |
|---|---|---|---|---|---|---|---|---|
| Expected loss ratio | 0.5 % | 3.0 % | 14.3 % | 48.5 % | 87.5 % | 88.1 % | 91.9 % | |
| kEUR | | | | | | | | |
| Gross carrying amount of accounts receivable | 22,184 | 4,905 | 939 | 374 | 437 | 685 | 2,079 | 31,603 |
| **Impairment** | **101** | **148** | **134** | **182** | **382** | **603** | **1,910** | **3,460** |

Changes in the impairment account were as follows:

| kEUR | 2019 | 2018 |
|---|---|---|
| As of January 1 | 3,460 | 2,979 |
| Additions | 4,321 | 2,746 |
| Utilization | – 3,277 | – 2,265 |
| **As of December 31** | **4,504** | **3,460** |

## 11. Other current assets

| kEUR | 2019 | 2018 |
|---|---|---|
| Receivables from suppliers from marketing services | 28,633 | 19,013 |
| Creditors with net debit balances | 2,726 | 7,591 |
| VAT receivables | 13,174 | 5,701 |
| Other | 3,189 | 2,852 |
| **Total** | **47,722** | **35,157** |

Creditors with net debit balances refer to claims against suppliers from accumulated volume discounts accrued in the financial year and are recognized on a net basis against the supplier. Before being netted, claims against suppliers totaled EUR 32.4 m (previous year: EUR 25.8 m). Outstanding supplier invoices amounted to EUR 29.7 m (previous year: EUR 18.2 m) (please refer to Note 16). All other current assets have maturities of one year or less.

Financial instruments amount to EUR 32.5 m (previous year: EUR 27.9 m).

## 12. Derivative financial instruments

| kEUR | 2019 | | 2018 | |
|---|---|---|---|---|
| | Assets | Liabilities | Assets | Liabilities |
| Forward exchange transactions - cash flow hedges | 0 | 362 | 0 | 52 |

Derivatives are used for economic hedging purposes only and not as speculative investments.

The derivative financial instruments held in hedge accounting are classified as current assets or current liabilities because the hedging period is less than one year. These derivative financial instruments concern cash flow hedges for hedging the currency risk from fluctuations in the GBP. Hedging is carried out using forward exchange transactions. No significant ineffective portions in hedging were detected as of December 31, 2019 reporting date.

The nominal value of outstanding forward exchange contracts totaled EUR 17.2 m as of December 31, 2019 (previous year: EUR 22.6 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 reporting date. Gains and losses on future contracts in foreign currency as of December 31, 2019 that are recognized in equity in the hedge reserve are recognized in the statement of comprehensive income for the period in which the hedged planned transaction affects the statement of comprehensive income (sales). This typically occurs in the subsequent twelve months.

As of December 31, 2019, the hedge reserve included the change in fair value of kEUR – 362 plus deferred tax effects totaling kEUR 119 which corresponds to a total of kEUR 243. The hedge reserve as of December 31, 2018 totaled kEUR – 35 (kEUR -52 including deferred tax effects of kEUR 17) and was fully recognized in the statement of comprehensive income in the 2019 financial year based on transactions that had occurred.

## 13. Cash and cash equivalents

| kEUR | 2019 | 2018 |
|---|---|---|
| Cash on hand | 3 | 2 |
| Bank balances | 64,290 | 59,519 |
| **Total** | **64,293** | **59,521** |

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, 2019, there were no current bank overdrafts.

## 14. Equity

### Subscribed capital

The subscribed capital corresponds with zooplus AG's share capital and totals EUR 7,146,688.00 (previous year: EUR 7,143,278.00). 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 reporting year, zooplus AG's subscribed capital increased as a result of the allocation of 3,410 subscription shares from Conditional Capital 2012 / I, raising subscribed capital by EUR 3,410.00 from EUR 7,143,278.00 to EUR 7,146,688.00.

### 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 26,990.00 (Conditional Capital 2012 ⁄ I) as of the reporting date. Conditional Capital 2012 ⁄ I currently serves to fulfill subscription rights for up to 26,990 no-par value bearer shares with a notional interest in the share capital of EUR 1.00 per share 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 resolution of the Annual General Meeting on May 22, 2012 as part of the Stock Option Program 2012 ⁄ I and the company does not grant its own shares to satisfy the subscription rights.

The company's share capital was conditionally increased by a further EUR 250,000.00 (Conditional Capital 2016 ⁄ I) as of the reporting date. Conditional Capital 2016 ⁄ I currently serves to fulfill subscription rights for up to 250,000 no-par value bearer shares with a notional interest in the share capital of EUR 1.00 per share 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 resolution of the Annual General Meeting on May 31, 2016 as part of the Stock Option Program 2016 and the company does not grant its own shares to satisfy the subscription rights.

The company's share capital has been conditionally increased by a further EUR 365,000.00 as of the reporting date (Conditional Capital 2018 ⁄ I). Conditional Capital 2018 ⁄ I currently underlies the rights to subscribe to up to 365,000 no-par-value bearer shares with a notional interest in the share capital of EUR 1.00 per share. Conditional Capital 2018 ⁄ I serves to secure subscription rights from stock options granted to members of the Management Board and company employees. The conditional capital increase will only be executed to the extent that the holders of the subscription rights issued under the 2018 stock option plan based on the authorization resolution of the Annual General Meeting on June 13, 2018, exercise their subscription rights to company shares, and the company does not grant treasury shares in fulfillment of the subscription rights.

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

| EUR | 2019 | 2018 |
|---|---|---|
| Conditional Capital 2012 ⁄ I | 26,990.00 | 30,400.00 |
| Conditional Capital 2016 ⁄ I | 250,000.00 | 250,000.00 |
| Conditional Capital 2018 ⁄ I | 365,000.00 | 365,000.00 |
| **Total** | **641,990.00** | **645,400.00** |

## Capital reserves

Capital reserves totaled EUR 102,827,311.58 as of December 31, 2019. Capital reserves increased by an amount of EUR 142,187.70 from the exercise of options originating from the Employee Stock Option Program 2012 ⁄ I.

This rise in capital reserves also resulted from the recognition of expenses from the employee stock option program (see other explanations in Note 15 contained in these notes) in the amount of EUR 1,890,780.72 (non-cash item).

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

| kEUR | 2019 | 2018 |
|---|---|---|
| Premiums paid in rounds of financing | 79,433 | 79,433 |
| Converted shareholder loans | 4,820 | 4,820 |
| Capital increase from company funds | – 2,809 | – 2,809 |
| Premium paid-in conditional capital increase | 11,248 | 11,106 |
| Convertible bonds / employee stock options | 10,135 | 8,244 |
| **Total** | **102,827** | **100,794** |

### 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 reporting date, offset by deferred taxes and currency adjustment items resulting from currency differences from the translation of the financial statements of foreign subsidiaries denominated in foreign currencies.

| kEUR | 2019 | 2018 |
|---|---|---|
| Hedge reserve | – 243 | – 35 |
| Currency adjustment items | – 1,804 | – 1,730 |
| **Total** | **– 2,047** | **– 1,765** |

### Profit / loss for the period and profit carried forward

| kEUR | 2019 | 2018 |
|---|---|---|
| Profit carried forward as of January 1 | 4,912 | 7,016 |
| Net profit / loss for the period | – 12,067 | – 2,105 |
| **Profit / loss carried forward as of December 31** | **– 7,156** | **4,912** |

## 15. Share-based remuneration

| kEUR | 2019 | 2018 |
|---|---|---|
| Expenses for Management Board members | 1,048 | 1,140 |
| Expenses for employees | 843 | 583 |
| **Total expenses** | **1,891** | **1,723** |

## Employee participation programs

Based on the resolution of the Annual General Meeting of May 22, 2012, and the consent of the Supervisory Board, the Management Board resolved the establishment of the Stock Option Program 2012 ⁄ I for issuing stock options with subscription rights for shares of zooplus AG to the company's employees. Under the Stock Option Program 2012 ⁄ I, the Management Board and Supervisory Board permit certain zooplus AG employees to subscribe to up to 100,000 no-par value shares of the company. Under this program, the stock options are issued in two tranches (50,000 ⁄ 50,000) that are each tied to different performance targets. Each option entitles the bearer to subscribe to one zooplus AG no-par value bearer share with a notional interest in the share capital of EUR 1.00 per share. The share's subscription price corresponds to the volume-weighted, 1-month average price of the company's share in Xetra trading on the Frankfurt Stock Exchange before the issuing date of the stock options less a reduction of 5 % and at least the highest exercise price of all stock options already issued under the Stock Option Program 2012 ⁄ I.

In the 2013 financial year, employees of zooplus AG were issued a total of 100,000 stock options. The subscription price for the options issued in April 2013 was EUR 39.54 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 100,000 no-par-value bearer shares of the company and selected executives of the company or of affiliated companies in Germany and abroad can receive up to 150,000 no-par-value shares of the company. Each option entitles the bearer to subscribe to one zooplus AG no-par value bearer share with a notional interest in the share capital of EUR 1.00 per share. The exercise price per share corresponds to the volume-weighted 6-month average price of the zooplus share in Xetra trading (or a comparable successor system) on the Frankfurt Stock Exchange prior to the issue date of the stock options, but at least at the minimum issue amount pursuant to Section 9 (1) AktG.

In the 2016 financial year, a total of 100,000 stock options were issued to members of the company's Management Board and a total of 48,400 stock options to the company's executives, as well as affiliated companies of zooplus AG in Germany and abroad. The subscription price for the options issued in September 2016 amounts to EUR 124.45 per share. In the 2018 financial year, a total of 85,600 stock options were issued to company executives and affiliated companies of zooplus AG in Germany and abroad. The subscription price for the options issued in April 2018 amounts to EUR 154.01 per share.

The earliest the option rights can be exercised is four years after the options were granted. The stock options can only be exercised if and to the extent that the performance targets are achieved as described in the following: 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). Subscription rights may be exercised within two years, starting with the end of the vesting period.

Based on the resolution of the Annual General Meeting of June 13, 2018 and the consent of the Supervisory Board, the Management Board resolved the establishment of the Stock Option Program 2018 for the issue of stock options with subscription rights to shares of zooplus AG to members of the Management Board of zooplus AG, members of management bodies of affiliated companies in Germany and abroad and selected executives and employees from zooplus AG and affiliated companies in Germany and abroad. Under the Stock Option Program 2018, members of the company's Management Board can receive up to a total of 150,000 no-par-value shares of the company, members of management bodies of affiliated companies in Germany and abroad can receive a total of up to 15,000 no-par-value shares of the company, selected executives and employees of affiliated companies in Germany and abroad can receive up to 200,000 no-par-value shares of the company.

In the 2018 financial year, a total of 115,000 stock options were issued to members of the company's Management Board. The subscription price for the options issued in August 2018 amounts to EUR 162.32 per share, and the subscription price for the options issued in December 2018 amounts to EUR 148.83 per share.

In April 2019, a total of 72,200 stock options were issued to members of management bodies of affiliated companies in Germany and abroad, as well as to selected executives and employees from zooplus AG and affiliated companies in Germany and abroad. The subscription price for the options issued in April 2019 amounts to EUR 114.59 per share.

Each option entitles the holder 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. The exercise price per share corresponds to the volume-weighted, 6-month average price of the zooplus share in Xetra trading (or a comparable successor system) on the Frankfurt Stock Exchange prior to the issue date of the stock options, but at least at the minimum issue amount pursuant to Section 9 (1) AktG. The earliest the option rights can be exercised is four years after the options were granted. The stock options can only be exercised when and to the extent that the performance targets are achieved as described in the following: The subscription rights to stock options can only be exercised if certain performance targets have been achieved. The performance targets are based on the zooplus share's absolute price performance during the vesting period. Depending on the price performance of zooplus shares, beneficiaries may be entitled to exercise differing amounts of their allocated stock options. A third of the stock options may be exercised when the volume-weighted 6-month average price of the company's shares in Xetra trading (or a comparable successor system) on the Frankfurt Stock Exchange at the end of the vesting period is at least 20 % above the exercise price (Performance Target I, in which case a third of the stock options may be exercised), at least 30 % above the exercise price (Performance Target II, in which case two-thirds of the stock options can be exercised) and at least 50 % above the exercise price (Performance Target III, in which case all of the stock options can be exercised). Subscription rights may be exercised within two years, starting with the end of the vesting period.

All options can be settled in equity instruments only.

The fair value of the stock options granted is determined by applying a Monte Carlo simulation as of the grant date (2018 Stock Option 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. Expected volatility is derived based on the assumption that past volatility can serve as an indication of future trends, whereby the actual future volatility can deviate from the assumptions made.

| Stock Option Program (SOP) for employees | 2019 |
|---|---|
| Average share price (EUR) | 94.50 |
| Expected volatility (%) | 34.37 |
| Risk-free interest rate (%) | – 0.46 |
| Dividend yield (%) | 0.0 |
| Anticipated term of options (in years) | 4.0 |

The development of stock options was as follows:

| | 2012 / I* | 2016 | 2018 |
|---|---|---|---|
| Outstanding at beginning of reporting period | 6,900 | 227,200 | 115,000 |
| Forfeited during the reporting period | 0 | – 11,100 | – 18,700 |
| Exercised during the reporting period | – 3,410 | 0 | 0 |
| Granted in the reporting period | 0 | 0 | 72,200 |
| **Outstanding at end of the reporting period** | **3,490** | **216,100** | **168,500** |

** Each option authorizes the subscription to one share.*

The exercise price for shares still outstanding as of December 31, 20198 was in the range of EUR 39.54 to EUR 162.32 per share. The weighted-average share price on the date the options were exercised was EUR 96.32 (previous year: EUR 153.81). At the end of the reporting period, 3,490 (previous year: 6,900) options were exercisable. The weighted-average remaining contractual term for the outstanding stock options as of December 31, 2019 was 3.98 years (previous year: 2.83 years).

## Cash-settled share-based remuneration

*Long-term incentive program for the Management Board*
A long-term incentive program in the form a share price-based performance share plan granted in annual tranches was offered until the end of the third quarter of 2016 to create performance incentives for executives when extending the contracts of existing Management Board members. For each tranche, a number of virtual shares in the company is allocated depending on EBT target achievement. These shares are subject to a vesting period of three years and can result in a cash payout to the company's Management Board members when the vesting period expires.

The number of virtual shares is equivalent to the ratio of the EBT-dependent base amount and the average issue reference price for the company's shares. The calculation basis for the EBT base amount is the EBT according to the company's previous year's consolidated financial statements that were approved by the Supervisory Board and prepared pursuant to IFRS. Target achievement is defined as the achievement of specific EBT targets from the company's planning.

As of the December 31, 2019 reporting date, the members of the Management Board are entitled to a total of 2,447 subscription rights (2018: 6,826) from this program with a fair value of kEUR 230 (prior year: kEUR 946).

The fair value of the virtual shares granted was calculated using a valuation model recognized by IFRS 2. The following parameters were used in the calculation as of December 31, 2019.

| Cash-settled share-based remuneration (LTI) for the Management Board – Tranche 2016 | 2019 |
|---|---|
| Share price on the reporting date | 85.40 |
| Initial reference price | 146.5 |
| Expected volatility (%) | 27.64 |
| Risk-free interest rate (%) | 0.0 |
| Remaining term in years | 0.4 |

The development was as follows:

| kEUR | 2019 | 2018 |
|---|---|---|
| Obligations from cash-settled share-based remuneration | 230 | 946 |
| **Total** | **230** | **946** |

The obligation is accounted for under current liabilities (previous year: current and non-current liabilities). The personnel expenses recognized for the 2019 financial year are as follows:

| kEUR | 2019 | 2018 |
|---|---|---|
| Income from cash-settled share-based remuneration | 259 | 300 |
| **Total** | 259 | 300 |

In the 2019 financial year, expenses from share-based payments from the issue of equity instruments amounted to kEUR 1,891 (previous year: kEUR 1,723). In contrast, income from the reversal of provisions for share-based payments with cash settlement amounted to kEUR 259 (previous year: kEUR 300). The 2015 tranche of the share-based payments with cash settlement amounting to kEUR 457 was paid out to current and former Management Board members in the 2019 financial year.

## 16. 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 32.4 m (previous year: EUR 18.2 m) were reclassified in assets as creditors with net debit balance and offset against receivables from these suppliers. Please refer to Note 11.

## 17. Financial liabilities

As of the fourth quarter of 2017, zooplus AG has had flexible credit lines totaling EUR 50.0 m at three independent banks without the provision of collateral and with a term until November 30, 2020. In 2018 and 2019, these credit lines were partially utilized to a small extent during the year.

Covenants in the form of a minimum equity ratio of 25.0% and an EBITDA at leave above breakeven before adjustments based on new accounting and measurement methods are in place for existing credit lines of EUR 50.0 m. The Management Board expects to continue to meet the covenants' terms in the future.

## 18. Other current liabilities

| kEUR | 2019 | 2018 |
|---|---|---|
| Tax liabilities | | |
| VAT | 19,103 | 14,570 |
| Wage and church taxes | 1,162 | 1,067 |
| **Sub total** | **20,265** | **15,637** |
| Additional other liabilities | | |
| Refunds to customers | 3,772 | 3,928 |
| Profit-sharing and bonuses | 3,457 | 2,195 |
| Employee vacation obligations | 1,495 | 1,268 |
| Customer returns | 1,261 | 1,233 |
| Financial statement and auditing costs | 173 | 150 |
| Other | 1,329 | 678 |
| **Sub total** | **11,487** | **9,452** |
| **Total** | **31,752** | **25,089** |

Financial instruments amounted to EUR 4.7 m (previous year: EUR 4.3 m).

## 19. Provisions

| kEUR | Current | | Non-current | |
|---|---|---|---|---|
| | Outstanding levies | Other | Share-based cash remuneration | Total |
| As of January 1, 2018 | 1,144 | 1,189 | 1,190 | 3,523 |
| Additions | 1,212 | 173 | 0 | 1,385 |
| Reclassifications | 238 | 549 | – 787 | 0 |
| Reversals | 103 | 225 | 82 | 410 |
| Utilization | 708 | 902 | 0 | 1,610 |
| As of December 31, 2018 | 1,783 | 784 | 321 | 2,888 |
| As of January 1, 2019 | 1,783 | 784 | 321 | 2,888 |
| Additions | 5,183 | 396 | 0 | 5,579 |
| Reclassifications | – 587 | 908 | – 321 | 0 |
| Reversals | 374 | 276 | 0 | 650 |
| Utilization | 451 | 833 | 0 | 1,284 |
| **As of December 31, 2019** | **5,554** | **979** | **0** | **6,533** |

With respect to the provision for share-based cash remuneration, please refer to the comments in Note 15.

Current provisions are anticipated to have a cash outflow during the current 2020 financial year.

## 20. Sales

| kEUR | 2019 | 2018 |
|---|---|---|
| Germany | 348,363 | 308,006 |
| France | 247,670 | 223,750 |
| Poland | 137,177 | 110,124 |
| Italy | 115,849 | 108,143 |
| Great Britain | 111,471 | 105,939 |
| The Netherlands | 94,760 | 85,098 |
| Spain | 82,030 | 76,633 |
| Belgium | 73,732 | 61,345 |
| Switzerland | 52,383 | 41,788 |
| Austria | 43,052 | 37,866 |
| Czechia | 39,433 | 32,695 |
| Denmark | 31,077 | 30,218 |
| Sweden | 29,617 | 27,098 |
| Finland | 27,224 | 24,086 |
| Other countries | 89,858 | 68,912 |
| **Total** | **1,523,696** | **1,341,701** |
| **Timeline of sales recognition** | | |
| At a certain point in time | 1,522,168 | 1,338,195 |
| Over a period of time | 1,528 | 3,506 |
| **Total** | **1,523,696** | **1,341,701** |

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

A total of 86 % of sales were generated from the sale of food and litter and the remaining 14 % mainly from the sales of accessories.

The Group recognized the following contract liabilities from contracts with customers:

| kEUR | 2019 | 2018 |
|---|---|---|
| Current contract liabilities from | | |
| Advance customer payments | 5,169 | 4,103 |
| Customer loyalty programs | 5,361 | 4,496 |
| zooplus discount plans | 2,841 | 2,858 |
| Customer vouchers | 636 | 501 |
| Total | **14,007** | **11,958** |

The table below shows the sales recognized in the reporting period that were included in the balance of contract liabilities at the beginning of the reporting period.

| kEUR | 2019 | 2018 |
|---|---|---|
| Sales recognized that were included in the balance of contract liabilities at the beginning of the reporting period | | |
| Advance customer payments | 4,103 | 2,522 |
| Customer loyalty programs | 4,496 | 2,515 |
| zooplus discount plans | 884 | 2,109 |
| Customer vouchers | 441 | 218 |
| **Total** | **9,924** | **7,364** |

## 21. Other income

| kEUR | 2019 | 2018 |
|---|---|---|
| Income from currency gains | 4,444 | 4,087 |
| Income from late fees | 958 | 779 |
| Income from services to employees | 226 | 599 |
| Income from sale of pallets | 714 | 419 |
| Compensation for damages | 390 | 251 |
| Other income | 2,746 | 2,426 |
| **Total** | **9,478** | **8,561** |

## 22. Own work capitalized

In the 2019 financial year, zooplus again focused on intensifying its expansion and improvement of its proprietary software platform. The development work that resulted led to the capitalization of internally generated intangible assets and own work capitalized in the amount of kEUR 2,092 (previous year: kEUR 2,801).

## 23. Personnel expenses

| kEUR | 2019 | 2018 |
|---|---|---|
| Wages and salaries | 47,112 | 40,292 |
| Social security contributions | 8,209 | 6,787 |
| **Total** | **55,321** | **47,079** |

For more on personnel expenses incurred under share-based payments, please refer to Note 15.

The average number of employees during the financial year was 713 people (previous year: 635, excluding the Management Board). Of this total, 76 employees were allocated to Operations, 245 to IT, 292 to Sales and Marketing and 100 to Administration.

## 24. Other expenses

| kEUR | 2019 | 2018 |
|---|---|---|
| Logistics & fulfillment costs | 278,615 | 263,752 |
| Marketing costs | 50,851 | 29,100 |
| Payment transaction expenses | 12,606 | 11,419 |
| IT services | 8,945 | 7,065 |
| Currency losses | 4,686 | 4,697 |
| Customer service | 6,725 | 5,664 |
| Office leases | 618 | 3,315 |
| Legal and advisory costs | 3,600 | 3,004 |
| Additional other operating expenses | 15,345 | 9,880 |
| **Total** | **381,991** | **337,896** |

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

## 25. Financial income and expenses

| kEUR | 2019 | 2018 |
|---|---|---|
| Interest income and similar income | 0 | 0 |
| Interest expenses and similar expenses | – 1,427 | – 771 |
| **Total** | **– 1,427** | **– 771** |

In the reporting year, lease accounting in accordance with IFRS 16 (please refer to Note 27) resulted in interest expenses of kEUR 1,220.

## 26. 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:

| | | 2019 | 2018 |
|---|---|---|---|
| Consolidated net profit / loss | EUR | – 12,067,429.27 | – 2,104,590.68 |
| Weighted-average number of no-par-value shares outstanding | Number of | 7,144,346 | 7,140,356 |
| Dilution effect | | | |
| Stock options | Number of | n / a[1] | n / a[1] |
| Weighted-average number of no-par-value shares outstanding | | | |
| adjusted for dilution | Number of | n / a[1] | n / a[1] |
| Basic earnings per share | EUR / share | – 1.69 | – 0.29 |
| Diluted earnings per share | EUR / share | – 1.69 | – 0.29 |

[1] No dilution due to loss

## 27. Leases

The following items related to leases were recognized on the balance sheet:

| kEUR | Dec. 31, 2019 | Jan. 1, 2019* |
|---|---|---|
| **Right-of-use assets** | | |
| Buildings | 80,660 | 82,992 |
| Vehicles | 334 | 306 |
| **Total** | **80,994** | **83,298** |
| **Lease liabilities** | | |
| Current | 61,813 | 18,080 |
| Non-current | 20,430 | 65,189 |
| **Total** | **82,243** | **83,269** |

* In 2018, the Group recognized lease assets and lease liabilities only for leases that were classified as finance leases under IAS 17. The corresponding assets were recognized under property, plant and equipment. Please refer to Note 2.1.1 for the adjustments resulting from the first-time adoption of the IFRS 16 provisions as of January 1, 2019.

Additions to right-of-use assets amounted to kEUR 17,845 in the 2019 financial year.

The following items in the statement of comprehensive income are affected by leases:

| kEUR | 2019 | 2018 |
|---|---|---|
| **Amortization of right-of-use assets** | | - |
| Buildings | 20,159 | - |
| Vehicles | 186 | |
| **Total** | **20,345** | - |
| **Interest expenses** | **1,220** | - |
| **Expenses related to short-term and low-value leases** | **401** | - |
| **Expenses related to variable lease payments not included in lease liabilities (recognized in cost of materials)** | 9 | - |

Total lease payments amounted to kEUR 20,734 in 2019.

The Group leases several office and warehouse logistics buildings, as well as vehicles and IT equipment. Rental contracts are usually concluded for fixed terms of one to ten years but may contain extension options, as explained below. The rental terms and conditions are agreed upon individually and contain a multitude of different conditions. The lease contracts do not include financial covenants; however, leased assets may not be pledged as collateral when assuming loans.

Potential future cash inflows amounting to EUR 32 m (undiscounted) as of December 31, 2019 were not taken into consideration for the lease liabilities as it is not sufficiently certain that the lease contract will be extended (or not terminated).

The assessment is reviewed when an extension option is actually exercised (or not exercised) or when the Group is obliged to do so. A reassessment of the original assessment is made if a significant event or change in circumstances occurs that could affect the original assessment, provided this is within the lessee's control. In the current reporting period, such adjustments to the contractual terms resulted in an increase of EUR 11.2 m in recognized lease liabilities and rights-of-use.

## Finance leases - 2018

As of December 31, 2018, the Group's finance lease liabilities amounted to EUR 50.0 m that were related to future lease payments for fulfillment centers.

In the 2018 financial year, the Group recognized EUR 5.7 m as depreciation and EUR 0.5 m as interest expense related to these finance leases. The underlying leases expired on December 31, 2024. The minimum lease payments for these finance lease liabilities in the 2018 financial year were as follows:

| kEUR<br>Lease payments due | 1 year or less | 1–5 years | Over 5 years | Total |
|---|---|---|---|---|
| Minimum lease payments | 10,406 | 38,332 | 3,113 | 51,851 |
| Interest expense for lease liabilities on the respective reporting date | 648 | 1,172 | 18 | 1,838 |
| Present value of lease payments | 9,758 | 37,160 | 3,095 | 50,013 |

## 28. Obligations

### Non-cancellable operating leases

The Group leases office buildings, vehicle fleets, IT equipment and office equipment under non-cancellable operating leases, which run for one to nine years. The leases have different terms, termination clauses and extension rights. The contract terms are customarily renegotiated upon their extension. Since January 1, 2019, the Group has recognized rights-of-use for these leases, with the exception of short-term leases and low-value leases (see Notes 2.1 and 27). The future total minimum lease payments under non-cancellable operating leases are as follows for each of the following periods:

| kEUR | 2019 | 2018 |
|---|---|---|
| One year or less | 0 | 10,162 |
| Between one and five years | 0 | 17,566 |
| Over five years | 0 | 6,611 |
| **Total** | **0** | **34,339** |

The expense recognized in the 2019 financial year under operating leases amounted to EUR 0.0 m (previous year EUR 12.3 m).

### Purchase commitments

Significant capital expenditures for property, plant and equipment for which contractual obligations existed as of the reporting date but were not yet recognized as liabilities, amounted to kEUR 495 (previous year: kEUR 0).

## 29. Transactions with related parties

With the exception of the salaries paid to executive bodies (see Note 33), there were no important relationships between the Group and related parties during the reporting year. Expenses related to stock options for members of the Management Board are detailed in Note 15. Of the Supervisory Board members, Mr. Stahl, Dr. Stoeck, Mr. Greve and Mr. Holland hold shares in the company. All transactions with related parties were carried out on terms and conditions that are also customary with third parties.

## 30. Collateral

There was no collateral as of December 31, 2019.

## 31. Additional information about financial assets and financial liabilities

Fair value is the amount an asset could be exchanged or a liability settled between knowledgeable, willing and mutually independent business partners.

The following table displays the carrying amounts and fair values of all of the financial instruments contained in the consolidated financial statements and shows the allocation of the assets and liabilities or parts of the balance sheet items to the measurement categories pursuant to IFRS 9:

| kEUR | Measurement category | Carrying amount | | Fair value | |
|---|---|---|---|---|---|
| | | 31 / 12 / 2019 | 31 / 12 / 2018 | 31 / 12 / 2019 | 31 / 12 / 2018 |
| **Financial assets** | | | | | |
| Accounts receivable | AC | 27,714 | 28,144 | n / a | n / a |
| Other current assets | | | | | |
| of which financial instruments pursuant to IFRS 7 | AC | 32,530 | 27,866 | n / a | n / a |
| Cash and cash equivalent | AC | 64,293 | 59,521 | n / a | n / a |
| **Total** | | **124,537** | **115,531** | **n / a** | **n / a** |
| **Financial liabilities** | | | | | |
| Accounts payable | FLaC | 125,050 | 99,735 | n / a | n / a |
| Other current liabilities | | | | | |
| of which financial instruments pursuant to IFRS 7 | FLaC | 4,677 | 4,253 | n / a | n / a |
| Lease liabilities | n / a | 82,243 | 50,013 | n / a | 50,013 |
| Derivative financial instruments | n / a | 362 | 52 | 362 | 52 |
| **Total** | | **212,332** | **154,053** | **362** | **50,065** |

AC (Amortized Cost)
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, 2019 and December 31, 2018 equal their carrying amounts. This is primarily due to the short maturities of these types of instruments.

The Group's financial liabilities excluding lease liabilities are all short-term in nature and have maturities of one year or less. Of the lease liabilities, kEUR 61,813 (previous year: kEUR 40,255) are long-term in nature. Repayments of the existing financial liabilities are made from cash flow from operating and financing activities.

Grouped according to the measurement categories of IFRS 9, the carrying amounts are as follows:

| kEUR | Measurement category | Carrying amount | | Fair value | |
|---|---|---|---|---|---|
| | | 31 / 12 / 2019 | 31 / 12 / 2018 | 31 / 12 / 2019 | 31 / 12 / 2018 |
| **Financial assets** | | | | | |
| Amortized Cost | AC | 124,537 | 115,531 | n / a | n / a |
| **Financial liabilities** | | | | | |
| Financial Liability at amortized Cost | FLaC | 129,727 | 103,988 | n / a | n / a |

Net gains or losses of financial instruments are as follows:

| kEUR | 2019 | 2018 |
|---|---|---|
| Impairment of financial assets (AC) | – 4,093 | – 2,746 |
| Interest gains / losses from financial liabilities (FLaC) | – 1,220 | 0 |
| **Total** | **– 5,313** | – 2,746 |

As of December 31, 2019, derivative financial instruments were not offset. Offsetting options for derivatives exist in the case of insolvency. As of December 31, 2019, only derivatives with negative fair values existed.

## 32. Subsequent events

On January 30, 2020, the World Health Organisation (WHO) declared an international health emergency due to the COVID-19 pathogen and classified its spread as a pandemic since March 11, 2020. Current developments and restrictions in individual procurement and sales markets and the consequences of these for zooplus' business performance are continuously monitored. At the present time, it cannot be ruled out that this will have a negative impact on the net assets, financial position and results of operations in 2020. In this context, we refer to our comments in the combined management report in the section outlook, risks and opportunities. Beyond this, no events of particular significance occurred after the end of the reporting year that have an impact on the net assets, financial position and results of operations.

## 33. Executive bodies

Members of the Management Board:

- Dr. Cornelius Patt, CEO (Corporate Management, overall responsibility for Business Development & System Development, IT, Human Resources)
- Andreas Grandinger (Finance, Controlling, Legal, Investor Relations, Internal Audit) until December 20, 2019
- Andreas Maueröder (Finance, Controlling, Legal, Investor Relations, Internal Audit) since January 1, 2020
- Dr. Mischa Ritter (Logistics and Supply Chain Management)
- Florian Welz (Sales & Marketing, Procurement, Category Management)

The principles of the remuneration system and the amount of remuneration of the Management and Supervisory Boards are presented and explained in the Remuneration Report. The Remuneration Report is part of the combined management report.

The total remuneration of the Management Board (German Commercial Code – HGB) for all components amounted to EUR 2.0 m in the 2019 financial year (previous year: EUR 3.9 m). The 2018 financial year was largely impacted by the granting of stock options in the amount of EUR 2.6 m under the 2018 Stock Option Program.

Remuneration under IAS 24 amounted to EUR 2.6 m in the financial year (previous year: EUR 2.2 m). Post-employment benefits for former members of the Management Board amounted to kEUR – 72 (previous year: kEUR 208).

| Management Board remuneration under IAS 24 in kEUR | 2019 | 2018 |
|---|---|---|
| Short-term benefits | 1,699 | 1,278 |
| Severance payments | 345 | 0 |
| Share-based payments | 573 | 894 |
| **Total remuneration** | **2,617** | **2,172** |

| kEUR | 2019 | 2018 |
|---|---|---|
| Provisions for share-based payments | 230 | 946 |
| **Total provisions** | **230** | **946** |

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 until (October 31, 2019)
- Ulric Jerome, freelance entrepreneur in the tech and e-commerce sector and investor, London, United Kingdom
- Henrik Persson, founder and manager of Sprints Capital Management Ltd., London, United Kingdom
- Dr. Norbert Stoeck, freelance corporate consultant, Munich, Germany
- Christine Cross, freelance business consultant and Director of Christine Cross Ltd., Cheltenham, Gloucestershire, United Kingdom (from November 1, 2019)

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

| | | | | | Remuneration in kEUR | |
|---|---|---|---|---|---|---|
| | **Supervisory Board** | **Audit Committee** | **Personnel Committee** | **Nomination Committee** | **2019** | **2018** |
| Christian Stahl | Chair | | Chair | ✓ | 85 | 85 |
| Moritz Greve | Deputy Chair | ✓ | ✓ | Chair | 45 | 45 |
| Karl-Heinz Holland | | ✓ | | | 33 | 40 |
| Ulric Jerome | | | ✓ | | 40 | 40 |
| Henrik Persson | | | | ✓ | 40 | 40 |
| Dr. Norbert Stoeck | | Chair | | | 45 | 45 |
| Christine Cross | | ✓ | | | 7 | - |
| **Total Remuneration** | | | | | **295** | **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 presented in the management report. The principles of the remuneration system and the amount of the remuneration of the Management Board and the Supervisory Board are presented and explained in detail in the Remuneration Report. The "Remuneration Report" is part of the management report.

## 34. Auditor's fees

The auditor's total fee for auditing the annual and consolidated financial statements is comprised of the following components:

| Total fee in kEUR | 2019 | 2018 |
|---|---|---|
| Auditing services | 347 | 268 |
| Other assurance services | 17 | 20 |
| Tax consulting services | 53 | 105 |
| **Total** | **417** | **393** |

The fee for auditing services mainly related to the statutory audit of zooplus AG's annual and consolidated financial statements. Fees for other assurance services concerned fees for the audit review of the separate combined non-financial report. The fee for tax consulting services includes tax consultations related to projects concerning transfer prices.

## 35. Statement on corporate governance

zooplus Aktiengesellschaft has issued the Declaration of Conformity with the "German Corporate Governance Code" required by Section 161 of the German Stock Corporation Act (AktG) and made this available to its shareholders on the company's website at https://investors.zooplus.com/en.

Munich, March 23, 2020

The Management Board

Dr. Cornelius Patt    Andreas Maueröder    Florial Welz    Dr. Mischa Ritter

# Responsibility Statement of the Management Board

To the best of our knowledge, and in accordance with the applicable accounting standards, the consolidated financial statements provide a true and fair view of the Group's net assets, financial position and results of operations, and the combined management report presents the Group's business performance, including the financial performance and the financial position, in a manner that gives a true and fair view and describes the principal opportunities and risks of the company's anticipated development.

Munich, March 23, 2020

Dr. Cornelius Patt | Andreas Maueröder | Florial Welz | Dr. Mischa Ritter

# Independent auditor's report

To zooplus AG, Munich

## REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

### Audit Opinions

We have audited the consolidated financial statements of zooplus AG, Munich, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2019, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from January 1 to December 31, 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of zooplus AG, which is combined with the Company's management report, for the financial year from January 1 to December 31, 2019. In accordance with the German legal requirements, we have not audited the content of those parts of the group management report listed in the "Other Information" section of our auditor's report.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § [Article] 315e Abs. [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at December 31, 2019, and of its financial performance for the financial year from January 1, 2019 to December 31, 2019, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the content of those parts of the group management report listed in the "Other Information" section of our auditor's report.

Pursuant to § 322 Abs. 3 Satz [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

### Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

## Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 1 to December 31, 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matters of most significance in our audit were as follows:

1. Recognition of revenue from business with customers, income from savings plans, and contract liabilities for bonus points
2. Recognition and measurement of inventories

Our presentation of these key audit matters has been structured in each case as follows:

1. Matter and issue
2. Audit approach and findings
3. Reference to further information

Hereinafter, we present the key audit matters:

**1 Recognition of revenue from business with customers, income from savings plans, and contract liabilities for bonus points**

1. In the consolidated financial statements of zooplus AG, revenue amounting to EUR 1.523,7 million is reported in the income statement. It relates to, among other things, the sale of merchandise via various online portals in Germany and other European countries. Since large-volume transactions are involved, the company has established comprehensive processes and systems for recognizing and deferring revenue. In addition, zooplus AG offers its customers the opportunity to get discounts on future purchases for a contractually specified period by purchasing "zooplus savings plans." The income from the sale of a saving plan is deferred and transferred to profit or loss as revenue over the periods of validity of the individual savings plans. Moreover, zooplus AG operates an independent bonus points program developed by the Company, under which customers have the opportunity to collect bonus points with each purchase. The consideration received is split between the products sold and the bonus points issued on the basis of the relative stand-alone selling prices, whereby the stand-alone selling price of the points equals their fair value. The fair value of the bonus points is determined on the basis of the selling prices of the premium products, deferred until they are utilized, and only recognized as revenue when the points are redeemed and zooplus AG has fulfilled its contractual obligations. A corresponding contract liability is recognized in the amount of the fair value. As of the balance sheet date, contract liabilities of EUR 5.361 million were recognized in this regard. Contract liabilities for bonus points that have been awarded but are no longer expected to be used are reversed to profit or loss.

   Due to the complexity of the processes and systems established for recognizing revenue as a significant item in terms of its amount as well as the use of measurement methods to determine the contract liability for bonus points that are dependent to a large extent on the estimates and assumptions made by the executive directors, these matters were of particular significance during our audit.

② During our audit, we assessed, among other things, the appropriateness and effectiveness of the Company's internal control system established to settle and realize revenue, including the IT systems used. In doing so, we also included our specialists in the Risk Assurance Service (RAS). We audited the revenue by, among other things, selecting samples of individual transactions with customers on the basis of statistical methods and inspecting the underlying documents. Accordingly, we examined whether revenue had been recognized in full. We also assessed whether revenue had been allocated to the correct periods or correctly deferred. In relation to revenue recognition, we paid particular attention to whether income from savings plans had been recognized in the correct period. In addition, we evaluated the consistency of the methods used to recognize revenue. In order to assess the appropriateness of the contract liabilities for bonus points recognized as of the balance sheet date, we examined, among other things, their measurement and the underlying assumptions and parameters derived therefrom. Furthermore, we evaluated the consistency of the measurement method used and the mathematical accuracy of the calculation of the contract liabilities for bonus points.

Overall, we were able to satisfy ourselves that the established systems and processes as well as controls in place are appropriate and that the estimates and assumptions made by the executive directors are sufficiently documented and substantiated to ensure that revenue and contract liabilities for bonus points are appropriately recognized.

③ The Company's disclosures on revenue and contract liabilities for bonus points are contained in section 20 of the notes to the consolidated financial statements.

**❷ Recognition and measurement of inventories**

① Inventories of EUR 117,7 million are reported in zooplus AG's consolidated financial statements. Inventories comprise primarily merchandise. To manage large volumes of inventories, the Company has established comprehensive processes and systems for recording, managing, and measuring inventories. Inventories are measured at the lower of cost and net realizable value. Cost is determined on the basis of weighted averages. zooplus AG uses derivative financial instruments, in particular currency forwards, to hedge foreign currency risks in forecast procurement transactions. If the financial instruments are effective hedges of future cash flows in the context of hedging relationships in accordance with the requirements of IFRS 9, the effective portion of the changes in fair value are recognized over the duration of the hedging relationships directly in equity until the occurrence of the hedged cash flows (hedge accounting). The cost of inventories therefore also includes gains or losses reclassified from equity that result from hedge accounting and relate to the purchase of inventories. The net realizable value is determined on the basis of the estimated sales proceeds to be generated in the normal course of business, less in particular selling expenses still to be incurred. All identifiable risks in inventories, especially those resulting from above-average storage periods or reduced marketability, are reflected by recognizing allowances as of the balance sheet date.

From our point of view, given the Company's growth and the technical complexity of the processes and systems used, this significant item in terms of its amount was of particular significance for our audit.

② As part of our audit, we assessed, among other things, the Company's processes and systems regarding purchasing, warehousing and distribution. In addition, we examined that inventories existed and were fully recorded by, among other things, observing physical inventory counts using statistical methods. Moreover, we evaluated the initial measurement at cost and the calculation of the weighted average. In assessing the appropriateness and effectiveness of the established internal control system, including the IT systems used, we also included our specialists in the Risk Assurance Service (RAS). Where purchases of inventories in foreign currency were hedged with foreign currency hedges, we examined that any resulting effects were – if necessary – reflected in determining the cost of the inventories concerned. For assessing the accounting of foreign currency hedging instruments, including the impact on equity and profit or loss, we involved our specialists from Corporate Treasury Solutions (CTS). Together with these specialists, we assessed, among other things, the risk management system with regard to derivative financial instruments, including the internal activities to monitor compliance with the hedging policy. In our audit of the fair values of the hedging transactions, we recalculated the forward exchange transactions using adequate tools and market data. With respect to the hedging of expected future cash flows, we mainly carried out an assessment of the expected future hedge effectiveness, the fulfilment of the effectiveness requirements according to IFRS 9 and the IFRS-9 compliant hedge documentation. We obtained bank confirmations in order to assess the completeness of the recorded transactions. We examined the calculation of net realizable value and satisfied ourselves that they had been calculated consistently and transparently. We evaluated the appropriateness and accuracy of the underlying parameters and assessed whether these parameters had been adequately documented and substantiated.

Based on our audit procedures, we were able to satisfy ourselves that the estimates and assumptions made by the executive directors for the purpose of recognizing and measuring inventories are sufficiently documented and substantiated.

3 The Company's disclosures on inventory measurement and derivative financial instruments are contained in sections 2.13 and 12 of the to the consolidated financial statements.

## Other Information

The executive directors are responsible for the other information. The other information comprises the following non-audited parts of the group management report

- the statement on corporate governance pursuant to § 289f HGB and § 315d HGB included in section 7 of the group management report
- the separate non-financial report pursuant to § 289b Abs. 3 HGB and § 315b Abs. 3 HGB

The other information comprises further the remaining parts of the annual report – excluding cross-references to external information – with the exception of the audited consolidated financial statements, the audited group management report and our auditor's report.

Our audit opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

## Responsibilities of the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

## Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

## OTHER LEGAL AND REGULATORY REQUIREMENTS

### Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on June 14, 2019. We were engaged by the supervisory board on September 20, 2019. We have been the group auditor of the zooplus AG, Munich, without interruption since the financial year 2012.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

## GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Katharina Deni.

Munich 23 March 2020

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

| | |
|---|---|
| Katharina Deni | Sebastian Stroner |
| German Public Auditor | German Public Auditor |

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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 investors.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 73 to 77. We do not assume any obligation to update the forward-looking statements contained in this report.

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