

Non-Financial Report 2018

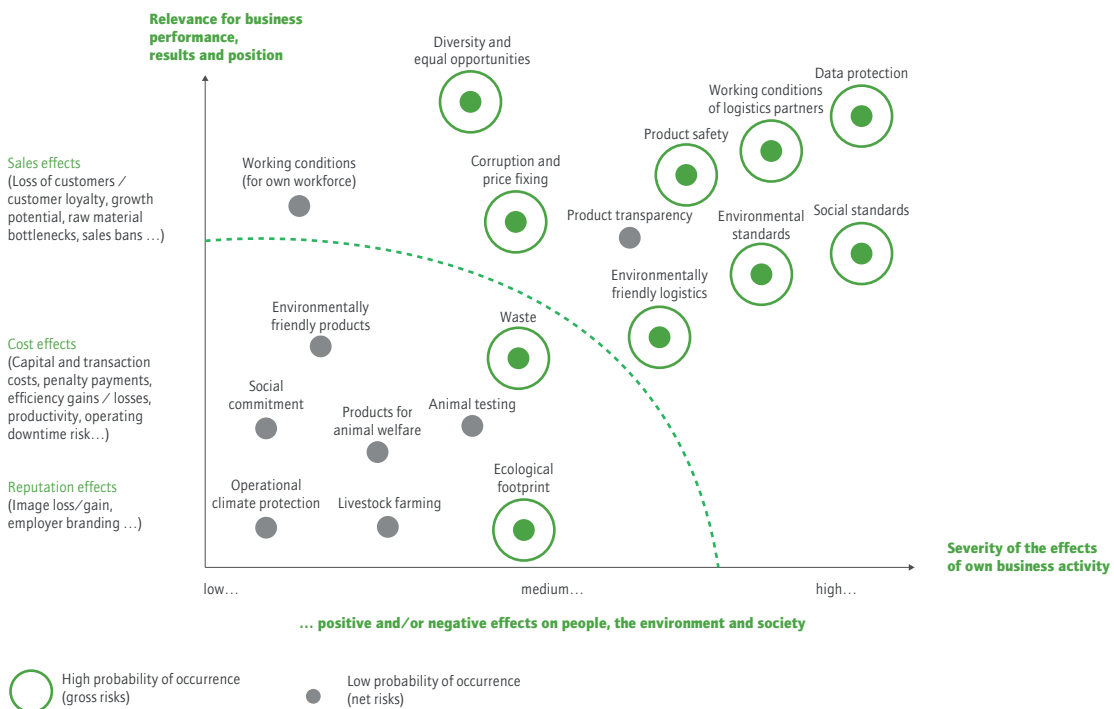
zooplus AG's business success is influenced, in part, by a large number of non-financial factors. The company therefore welcomes the European Directive 2014/95/EUR on "Disclosure of Non-Financial and Diversity Information by Certain Large Undertakings and Groups" as an important step toward the greater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

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

Key Facts and Reporting Limits

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

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



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

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

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

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

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

Business Model

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

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

Environmental Issues

Environmental Standards within the Supply Chain

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

Around 14% of the palm oil used in Germany are used to produce food for livestock and pets. Only about 15% of this palm oil are derived from sustainable cultivation.¹ The production of palm oil, especially in Southeast Asia, is often associated with the loss of rainforest, thereby posing a threat to animals' natural habitats. In addition, large amounts of CO₂ are emitted through the exposed tropical soil. A common ingredient in pet food is fish. Overfishing has also

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

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

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

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

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

Environmentally Friendly Logistics

zooplus generally assumes that online retailing with a low return rate has ecological advantages² compared to purchases made in bricks-and-mortar stores. These advantages stem from concentrating the stock of goods in central warehouses and pooling the transportation of goods to the end user, which avoids much of the traffic in cities and municipalities. The majority of greenhouse gas emissions directly generated by online retailing arise in the logistics processes – that is, during transportation from the manufacturer to the logistics centers, as well as the shipping to the customer. The transportation sector as a whole accounts for about a quarter of global energy-related CO₂ emissions³. In view of the expected growth rates in online retailing, our goal is the environmentally friendly design of logistics processes as our contribution to the global fight against climate change.

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

²<https://www.sciencedirect.com/science/article/pii/S0959652614006489>

³<http://www.iea.org/publications/freepublications/publication/CO2EmissionsfromFuelCombustionHighlights2017.pdf>

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

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

Generally, a major driver of the CO₂ intensity in the mail-order business is the high proportion of returned goods that need to be transported from the customer back to the retailers' logistics centers. Unlike online retailers in other segments, however, zooplus AG is hardly affected by returns due to its product mix. Size and the individual tastes of customers play a minor role in the purchase of pet food and pet supplies. In the 2018 financial year, as in previous years, the return rate at zooplus was at a very low level of 1%.

As an innovative and disruptive company, zooplus strives to reduce its CO₂ 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 CO₂ emissions. As part of this project, it was determined that the internationally recognized Greenhouse Gas Protocol would be the method used to recognize the carbon footprint along zooplus' value chain. In addition to optimizing those variables we have an influence on (for example, parcel routing decisions and the use of sustainable packaging materials), we also engage in an active exchange with our existing service providers. When searching for new service providers, we explicitly consider their approaches to climate-friendly logistics.

Animal Welfare

Product Safety

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

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

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

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

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

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

Social Concerns

Product Transparency

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

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

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

Employee Concerns

Working Conditions

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

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

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

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

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

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

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

Diversity and Equal Opportunity

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

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

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

Respect for Human Rights

Social Standards

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

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

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

Combating Bribery and Corruption

Corruption and Price Fixing

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

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

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

Data Protection

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

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

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

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

To zooplus AG, München

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

Responsibilities of the Executive Directors

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

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

Independence and Quality Control of the Audit Firm

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

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

Practitioner's Responsibility

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

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

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

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

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

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

Assurance Conclusion

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

Intended Use of the Assurance Report

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

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

Munich, 14 March 2019

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Hendrik Fink
Wirtschaftsprüfer
German public auditor

ppa. Barbara Wieler