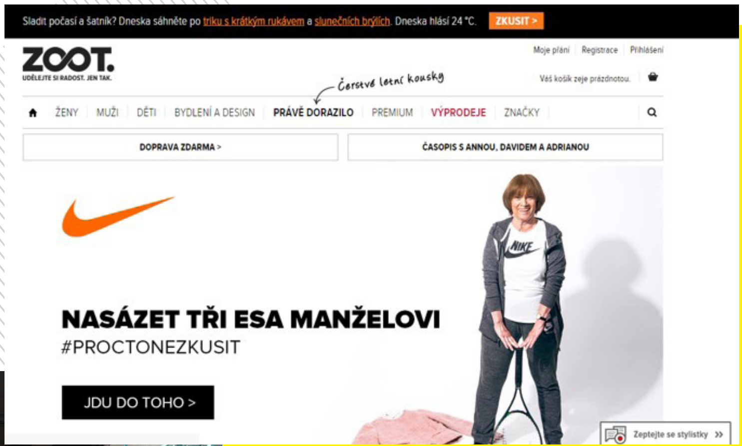
ZOOT a.s.

ANNUAL REPORT 2017


Sladit počasí a šatník? Dneska sáhněte po triku s krátkým rukávem a slunečních brýlích. Dneska hlásí 24 °C.
ZKUSIT >
ZOOT.
UDĚLEJTE SI RADOST. JEN TAK.
Moje přání
Registrace
Přihlášení
Čerstvé letní kousky
Váš košík zeje prázdnotou.
ŽENY
MUŽI
DĚTI
BYDLENÍ A DESIGN
PRÁVĚ DORAZILO
PREMIUM
VÝPRODEJE
ZNAČKY
DOPRAVA ZDARMA >
ČASOPIS S ANNOU, DAVIDEM A ADRIANOU
NASÁZET TŘI ESA MANŽELOVI
#PROCTONEZKUSIT
JDU DO TOHO >
Zeptejte se stylistky


ZOOT.
POJĎ SI HRÁT


DISTRIBUCE
ZOOT.

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01 COMPANY PROFILE

ZOOM ON ZOOT

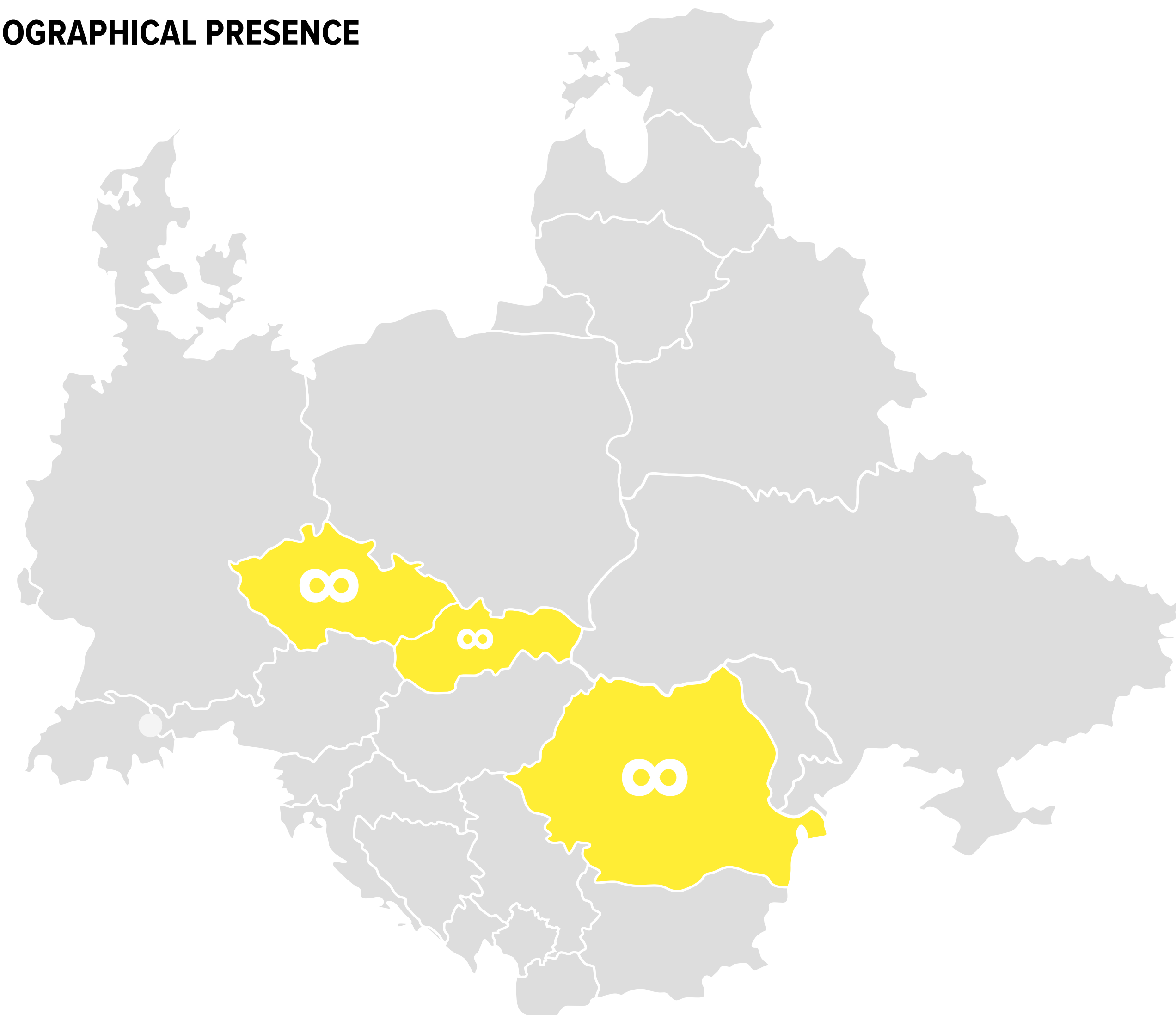
ZOOT is a fast-growing Central and Eastern European fashion market player with a unique data-driven platform that combines the best of the online and offline retail worlds. The Company's portfolio includes fashion and home accessories for women, men and children from more than 300 brands, representing renowned international labels and aspiring local designers.

ZOOT's mission is to spread happiness by bringing the power and beauty of fashion to the people. To deliver on this ambitious purpose, ZOOT aims to disrupt the established fashion sales environment and to drive inspiration by fully leveraging the powerful ZOOT brand, its omni-channel platform and innovative team.

ZOOT's strategic goal is to become the leading fashion omni-channel network within the CEE region. Apart from the Czech Republic, where it is the largest online fashion store, ZOOT also operates in Slovakia and Romania.

ZOOT a.s. was successfully listed on the Prague Stock Exchange as a bond issuer (ISIN CZ0003516890) in 2017.

GEOGRAPHICAL PRESENCE



BACKGROUND

2007 – The Company was established in Prague, Czech Republic in December 2007.

2008/2009 – The Company gradually grew from a simple platform for fans of big fashion brands in the beginning to an offer aggregator leveraging social networks..

2010 – The ZOOT brand was successfully launched and the Company became an all-encompassing online fashion platform.

2011 – Increasing brand awareness and perception led to higher conversion rates.

2012 – ZOOT introduced the omni-channel model, aiming to merge the best of the online and offline worlds. The first Try & Buy store opened in Prague, significantly boosting sales.

2013 – The hybrid business model drove accelerated growth, as the Company successfully tripled the number of its purchasing orders.

2014 – Another year of fast growth benefiting from a highly advanced and innovative technological platform and a fast growing network of Try & Buy stores.

2015 – The successful ZOOT brand and business model expanded internationally, by entering the Slovak and Romanian markets. Given its more than 100% sales growth, ZOOT was ranked among the fastest growing companies in Europe by the prestigious Inc. 5 000 magazine.

2016 – The first fully responsive e-shop version was launched, enabling faster operations and enhancing online customer experience. The Parent Company successfully secured EUR 5.5 million investment from 3TS Capital Partners to finance further business growth.

2017 – Keep reading...

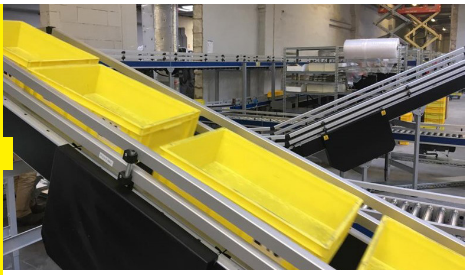
BOND ISSUER INFORMATION

Name of Company:	ZOOT a.s.
Registered office:	Zubatého 295/5, Smíchov, 150 00 Prague 5
Contact:	Website: https://corporate.ZOOT.cz/; tel.: +420 601 585 732; email: recepce@zoot.cz
Legal status:	Joint-stock company
Corporate ID:	282 06 592
LEI code:	315700M0HUBNA7947O55
Commercial registry:	Register of Companies maintained by the Municipal Court in Prague, File No. B13119.
Registration date:	10 December 2007
Ownership:	Fully owned by ZOOT B.V.,[1] based in Strawinskylaan 937, Amsterdam, 1077XX, The Netherlands, registration number 56539932

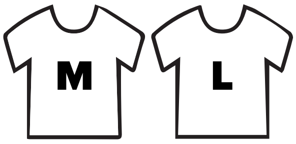
[1] A brief description of the group and the position of the issuer as part of the group is available in the Report on Related Party Transactions, which is part of this document.

2017 HIGHLIGHTS

Completed warehouse
extension and logistics automatization
o secure logistics capacity until 2020



Successfully launched the **"ZOOT size ranges"** project, helping customers select the right clothing size online



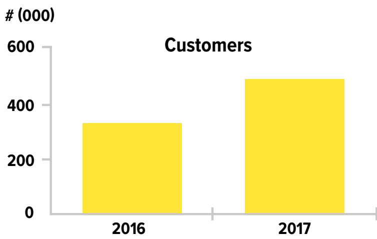
Try & Buy network extended to include within 9 new stores, reaching a total of **30 Try & Buy** ("T&B") stores in CZ

Over 30 internationally famous brands added to the portfolio

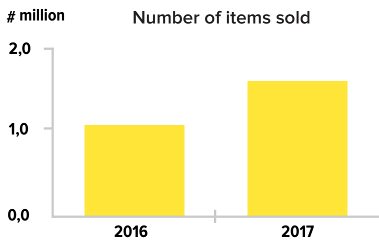
Overall winner of the **"Big 5 award"** in the Deloitte CE technology fast 50 ranking for 2017

Deloitte.
FINANCIAL TIMES
SHOPROKU
internet RETAILER
Inc. 5000 EUROPE
Ogilvy & Mather
Love3rand

More than 455 thousand customers[2] representing a **36% increase YoY**



The Number of Items sold was **1.7 million** in 2017, an increase compared to up from 1.0 million in 2016



- Delivered a record high total revenue of CZK 1.075 billion, driven by purely organic growth
- EBITDA reached the value of CZK 28.8 million, an increase compared to the CZK 2.9 million reported in 2016
- Raised CZK 150 million of debt capital by issuing 4-year bonds

[2] Of the total number of customers, the Czech customer base remains the largest, with a share of 76%. The Company only sells directly to Czech customers, whereas to Slovak and Romania customers it sells indirectly via its related distributing entities.

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

Dear ZOOT Investors, Friends and ZOOTers,

2017 marked the 5th anniversary of the Company's positioning as a fashion e-commerce player. As a gift on this special occasion, I am delighted to share with you the news that for the first time in its history ZOOT surpassed the impressive milestone of CZK 1 billion in total annual revenue.

This past year was truly tremendous for ZOOT, as we made significant progress towards our strategic goal of becoming the leading fashion omni-channel network within the CEE region.

Firstly, we continued to leverage our first mover advantage in the Czech Republic and further expanded our customer base. In addition, customer satisfaction and brand awareness remained high.

Secondly, we were able to successfully scale our growth organically. During 2017, we expanded the ZOOT Try & Buy network to include a record number of 9 new locations in the Czech Republic and added around 30 new fashion brands to the portfolio. Our team also completed logistics automation and a warehouse extension, thus securing storage capacity untill 2020 and increasing the daily expedition capacity to 130 000 items per day.

Thirdly, we continued to drive strong online retail growth in 2017, as internet shopping is becoming the preferred shopping choice in our target markets.

These operational achievements drove the Company's 2017 financial performance to new record values. For the first time in the Company's history, total revenue exceeded CZK 1 billion, representing a 37% increase over the previous year.

Such impressive performance would not have been possible without the investor trust and capital flexibility that we enjoy. In 2017, the Company raised CZK 150 million debt via bonds, which were fully subscribed in just one month and subsequently listed on the Prague Stock Exchange. In addition, our shareholders and local banking partners allowed us to enjoy the benefits of financial flexibility, an essential condition for continued business growth. In order to further enhance financial transparency and investor trust, we continue to upgrade our corporate governance, internal policies and financial reporting, as also represented by this Annual Report.

On behalf of the entire ZOOT team, I would like to thank all the investors, employees, partners, clients and suppliers who have supported us and I look forward to further consolidating our success story in the years ahead.

In Prague on 23 April 2018

Ladislav Trpák
Chief Executive Officer & Chairman of the Board of Directors

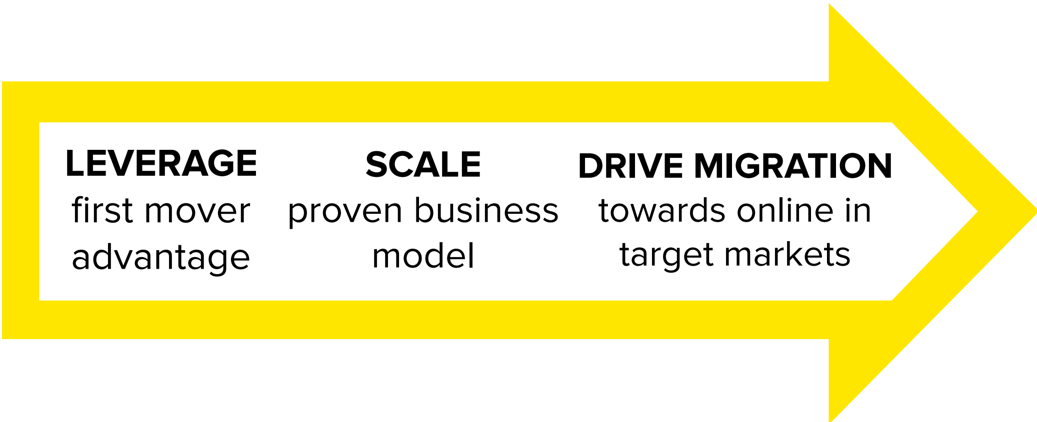
COMPANY STRATEGY

MISSION

Our mission at ZOOT is to spread happiness by bringing the power and beauty of fashion to the people.
Spreading happiness is at the core of everything we do at ZOOT. We do not just sell clothes; we encourage our customers and employees to be inspired, to smile and share happiness by pleasantly surprising their dear ones.
To deliver on this ambitious purpose, ZOOT aims to disrupt the established fashion sales environment and to drive inspiration by fully leveraging the powerful ZOOT brand, its omni-channel platform and innovative team.
Our aspiration is to become a single happiness-sharing platform for customers who are in love with fashion.

STRATEGY

Our strategy as a first mover in the CEE region is to scale our proven business model and drive internet shopping migration, aiming to become the leading fashion omni-channel network within the Central & Eastern European region.



First mover advantage:
Since its launch in 2010, the ZOOT brand has developed a strong level of customer awareness and preference in our markets. Our well-known and attractive brand represents a key competitive advantage that we seek to leverage in our efforts to deliver on our growth ambitions.

Proven business model:
Our business model combines the best of the online and offline worlds. The innovative AI-driven online platform successfully engages the customers in a spontaneous, personalized and convenient shopping experience. The offline component smoothly completes this customer experience by allowing for same day delivery and "try before you buy" options. The Try & Buy store network is capital light, rapidly-scalable and cost-efficient. Each new store significantly boosts conversion rates in the area, stimulates customer loyalty and, thus, pays off very quickly.

Drive migration:
The estimated EUR 9 billion[3] fashion market in ZOOT's countries of operations remains largely untapped, with only 14%[4] online penetration on average. Statista forecasts the Czech Republic, Poland and Romania online fashion markets to grow by 33% over the next 3 years.[5] Shopping for fashion online is expected to grow at the expense of traditional retail stores. Increasing penetration of smart mobile devices further supports the growing trend of online shopping.
At ZOOT, we aim to seize the opportunity and grow together with our target markets in the CEE region.

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[3] Source: Statista online 2018
[4] Source: Statista online 2018
[5] Source: Statista online 2018

CORPORATE RESPONSIBILITY

At ZOOT, the approach we take towards delivering on our business strategy is as important as the goals we seek to achieve. Our approach is one of social responsibility and sustainability, as we strive to ensure that our work always delivers positive social and environmental outcomes, not just commercial and financial success.
Given the nature of our business in the fashion retail industry, we concentrate our CSR (corporate and social responsibility) efforts around three core initiatives, where we believe we are well-positioned to make an impact:

CSR INITIATIVE 1: PROTECT THE ENVIRONMENT WITH HAPPINESS

Given the business model of most e-commerce companies, it is the logistics and delivery of goods to the end customer which can trigger negative impact factors on the environment. However, our hybrid business model, which combines the best of the online and offline worlds, allows us to optimize the number of goods delivered to the customers' doors as well as the number of product returns, as an increasing number of customers prefer to use our Try & Buy locations.
ZOOT is also engaged in waste separation and operational material recycling as part of the packaging waste recovery EKO-KOM system.
In addition, the Company supports multiple environmental NGOs and projects, such as urban cycling and the “Do práce na kole” competition (in English: “Cycle to Work”), an initiative of Auto*Mat and Bezobalu, a Czech NGO focusing on zero waste projects.

DOBRO.

CSR INITIATIVE 2: HELPING IS FASHIONABLE

In line with our brand promise of spreading happiness through fashion, we seek to take the same approach as part of this second CSR initiative.
At ZOOT, we have launched DOBRO, a special clothing collection dedicated to conveying messages to support human rights in a fashionable way, diversity, and environmental protection. All profit generated from sales of the DOBRO collection is passed on to the NGO initiatives and charities that we support.
As part of this initiative, we have designated ZOOT T & B locations to also serve as collection points for used clothes that may be left here by our customers. The clothes are handed to charity organisations that create work positions for disadvantaged people and recycle the unused textiles to create non-woven fabrics used for the manufacturing of design accessories.

Designers

CSR INITIATIVE 3: PROMOTE YOUNG LOCAL DESIGNERS TO SPREAD HAPPINESS

While most of the brands in ZOOT's portfolio are internationally renowned, we also take pleasure in discovering and promoting young and talented local fashion designers. By gaining access to present and sell their own collections via ZOOT, these young designers get a unique opportunity to increase their outreach in all the countries within CEE where we operate.
In 2017 alone, as part of this initiative, ZOOT launched three new labels of contemporary fashion designers. The first foreign designer that ZOOT approached, and is collaborating with, is the unconventional Bianca Popp from nearby Romania. Among the Czech designers, ZOOT supports the labels of Jana Minarikova and Lazy Eye. Lazy Eye clothing is designed by the young fashion designer Hana Noble.

CORPORATE GOVERNANCE

At ZOOT, we strive to continually enhance our corporate governance. By doing so, we facilitate smooth growth of our business while nurturing our investors' trust and their need for transparency. In this section, we report on the structure, procedures and remuneration of our statutory bodies, as well as on the Company's shareholding structure, Board diversity and corporate governance policies and practices.

STATUTORY BODIES

ZOOT a.s. is a joint-stock company established in accordance with Czech law and reflective of its Articles of Association (Bylaws). The managing body of the Company is represented by the Board of Directors, while the supervisory body is represented by the Supervisory Board. The Audit Committee plays its part in oversight and makes recommendations to the Board of Directors and the Supervisory Board. The General Meeting of shareholders represents the Company's statutory body with the supreme authority. A description of each statutory body is provided below.

STRUCTURE OF THE BOARD OF DIRECTORS

The Board of Directors is the statutory body of the Company, it is responsible for managing its day-to-day operations and is authorized to represent it externally. The Board of Directors decides on all business matters on behalf of the Company, unless otherwise indicated by applicable laws or the Company's Bylaws.
As of December 2017, the Board of Directors had the following members, as indicated in the table below. The business address of all members of the Board of Directors is Drtinova 557/10, Smíchov, 150 00 Prague 5, Czech Republic.

Board of Directors	Position	Name
	Chairman	Ladislav Trpák
	Vice-Chairman	Petr Ladžov
	Member	Hana Matuštíková

Ladislav Trpák, Chairman

Ladislav Trpák has been Chairman of the Board of Directors since 12 July 2013. In addition, he is also CEO and co-founder of the Company, as well as a shareholder of the Parent Company (ZOOT B.V.). Ladislav Trpák is also managing director of ZOOT SK s.r.o. and ZOOT SRL. Prior to his role at ZOOT a.s., Ladislav founded the company Advertures and turned it into one of the most successful digital agencies in the Czech Republic (sold to Ogilvy & Mather in 2008). Before that, he managed the expansion of Jobpilot, which was sold to Monster.com in 2004. Ladislav Trpák is also a shareholder of Echilon Capital s.r.o., a company having indirect interests in the share capital of Invoice Financing s.r.o., a supply-chain finance business which also does business with the Company, thus creating a potential conflict of interest.

Petr Ladžov, Vice-Chairman

Petr Ladžov has been Vice-Chairman of the Board of Directors since 12 July 2013. In addition, he is also CFO of the Company, as well as a shareholder and Supervisory Board member of the Parent Company (ZOOT B.V.). Petr Ladžov is also managing director of ZOOT SK s.r.o. and ZOOT SRL. Prior to his role at ZOOT a.s., Petr gained experience in debt restructuring at KB (Societe Generale) and in investment banking at Commerzbank. Petr Ladžov is also a shareholder of Echilon Capital s.r.o., a company having indirect interests in the share capital of Invoice Financing s.r.o., a supply-chain finance business which also does business with the Company, thus creating a potential conflict of interest.

Hana Matuštíková, Member of the Board of Directors

Hana Matuštíková has been a member of the Board of Directors since 1 July 2013. In addition, she is also COO of the Company. Hana Matuštíková is also managing director of ZOOT SRL. Prior to her role at ZOOT a.s., Hana Matuštíková worked as a consultant with PwC Czech Republic.

As of 31 December 2017, members of the Board of Directors as a group indirectly owned 19.75% of the Company via interests in ZOOT B.V.

PROCEDURES OF THE BOARD OF DIRECTORS

Below is a summary of relevant information concerning the procedures of the Board of Directors.
The Board of Directors is responsible for the day-to-day management of the Company, for setting its strategy, and for ensuring its financial accounting. Certain resolutions of the Board of Directors require the approval of the Supervisory Board or the General Meeting.

According to the Bylaws, there are three members of the Board of Directors. Members of the Board of Directors are appointed and recalled by the Supervisory Board. The Board of Directors appoints and recalls its Chairman and Vice-Chairman. The term of office of each member of the Board of Directors is five years. Re-election of the same person is permitted.

More information on the rights, obligations and decision-making approach of the Board of Directors is available in ZOOT a.s. Bylaws, available online at https://corporate.zoot.cz/pro-investory/.

REMUNERATION OF THE BOARD OF DIRECTORS

The remuneration for the individual members of the Board of Directors consists of three components: fixed base compensation, performance-based incentives and benefits. The total remuneration package of each is reflective of their responsibilities, their experience and the Company's remuneration policy.

The fixed base compensation is paid on a monthly basis to all members of the Board of Directors. In 2017, the Board of Directors as a group was paid a total amount of CZK 4.7 million in fixed base compensations, partially subject to applicable health, social and income taxes, out of which the amount of CZK 2.2 million relates specifically to the performance of the functions of the Board of Directors.

The performance-based incentives are cash bonuses paid on a quarterly or yearly basis. In 2017, the Board of Directors as a group was remunerated in a total amount of CZK 0.7 million representing performance-based incentives, all subject to applicable health, social and income taxes. The performance-based incentives are subject to fulfilment of individual targets set for the applicable year by the ZOOT B.V. Board of Directors, who are also responsible for the fulfilment approval at the year end.

In addition, certain members of the Board of Directors are entitled to cash settled share-based compensation which was granted by the Company's ultimate parent entity and which is subject to time-based vesting in the exit event of one or more of the Company's Original Founders. In 2017, there was no cash settled share-based compensation paid to the Board of Directors as a group, and the Company estimates the value of all vested entitled shares to be CZK 1.4 million as of 31 December 2017.

The members of the Board of Directors are entitled to additional benefits as non-cash payments, in line with the Company's employee benefit policy, applicable to all full-time employees. Specifically, the employees are entitled to purchase ZOOT goods for a discounted price. During the fiscal year 2017, the Board of Directors as a group were offered benefits in a total amount of CZK 11 thousand.

STRUCTURE OF THE SUPERVISORY BOARD

The Supervisory Board is the supervisory body of the Company. It mainly overviews the activities of the Board of Directors and the overall performance of the Company. The Supervisory Board is authorized to review all documents and records in relation to the Company's operations, and to verify if financial accounting is compliant with applicable regulations and reflective of real business operations.
As of December 2017, the Supervisory Board had the following members, as indicated in the table below.

Supervisory Board	Position	Name
	Chairman	Oldřich Bajer
	Member	Kamila Říhová
	Member	Jiří Beneš
	Member	Luděk Palata

Oldřich Bajer, Chairman
Oldřich Bajer has been Chairman of the Supervisory Board since 11 July 2013. In addition, he is also a shareholder and the chairman of the supervisory board of the Parent Company (ZOOT B.V.). Oldřich Bajer is also a partner of Nouvelle Prague s.r.o. (ID number: 03118231). Prior to his role at ZOOT a.s., Oldřich Bajer was a co-founder of Czech internet portal NetCentrum/Centrum.cz, which was sold to Warburg Pincus in 2007).

Kamila Říhová, Member
Kamila Říhová has been a Member of the Supervisory Board since 1 July 2013. In addition, she also works as Business Development Director for the Company. Prior to her role at ZOOT a.s., Kamila Říhová gained extensive experience in fashion procurement with Fashion Days Shopping s.r.o. and other companies.

Jiří Beneš, Member

Jiří Beneš has been a Member of the Supervisory Board since 15 December 2014. Jiří Beneš is also involved in the following companies and organizations: 3TS Capital (partner), The Czech Private Equity and Venture Capital Association (president) and Nej TV a.s. (board member). Jiří Beneš gained extensive experience as an Investment Associate of 3TS Capital Partners and as part of PricewaterhouseCoopers Česká republika, s.r.o., Corporate Finance.

Luděk Palata, Member

Luděk Palata has been a Member of the Supervisory Board since 22 March 2017. Luděk Palata is also involved in the following companies and organizations: BHS Fund II. - Private Equity, investment fund a.s. (member of the administrative board), VERSUTE INVESTMENTS s.r.o. (managing director and partner) and the Czech Private Equity and Venture Capital Association (Board member). Luděk Palata boasts extensive experience in investment management, having held various roles with Riverside Europe Partners, Sgrow Venture Partners, GIMV and Sumit Medical Group Ltd.

As of 31 December 2017, members of the Supervisory Board and organizations represented by members of the Supervisory Board as a group indirectly owned 80.25% of the Company via interests in the parent share capital.

PROCEDURES OF THE SUPERVISORY BOARD

Below is a summary of relevant information concerning the procedures of the Supervisory Board.
The Supervisory Board is responsible for supervising the conduct of and providing advice to the Board of Directors, and for supervising the Company's business in general. The Supervisory Board may also, on its own initiative, request any information from the Board of Directors that it deems appropriate. In performing its duties, the Supervisory Board is required to take into account the interests of the Company as a whole.
Pursuant to the Bylaws, the Supervisory Board must consist of four members. The General Meeting of Shareholders appoints and recalls the Supervisory Board members. Each Supervisory Board member is appointed for a term of four years. Re-election of the same person is permitted.
More information on the rights, obligations and decision-making approach of the Supervisory Board is available in ZOOT a.s. Bylaws, available online at https://corporate.zoot.cz/pro-investory/.

REMUNERATION OF THE SUPERVISORY BOARD

The individual members of the Supervisory Board who are not employees of the Company either don't have any remuneration or have a fixed base compensation. The remuneration for the individual members of the Supervisory Board who are also employees of the Company consists of three components: fixed base compensation, performance-based incentives and benefits. The total remuneration package of each is reflective of their responsibilities, their experience and the Company's remuneration policy.

The fixed base compensation is paid on a monthly basis to all members of the Supervisory board. In 2017, the Supervisory Board as a group was paid a total amount of CZK 1.3 million in fixed base compensations, fully subject to applicable health, social and income taxes, out of which an amount of CZK 120 thousand relates specifically to the performance of functions of the Supervisory Board.

The performance-based incentives are cash bonuses paid on a quarterly or yearly basis. In 2017, the Supervisory Board as a group were remunerated a total amount of CZK 34 thousand representing performance-based incentives, all subject to applicable health, social and income taxes. The performance-based incentives are subject to fulfilment of individual targets set for the applicable year by the ZOOT B.V. Supervisory Board, who is also responsible for the fulfilment approval at the year end.

In addition, certain members of the Supervisory Board are entitled to cash settled share-based compensation which was granted by the Company's ultimate parent entity and which is subject to time-based vesting in the exit event of one or more of the Company's Original Founders. In 2017, there was no cash settled share-based compensation paid to the Supervisory Board as a group, and the Company estimates the value of all vested entitled shares to be CZK 2.5 million as of 31 December 2017.

The members of the Supervisory Board are entitled to additional benefits such as non-cash payments, in line with the Company's employee benefit policy, applicable to all full-time employees. Specifically, the employees are entitled to purchase ZOOT goods for a discounted price. During the fiscal year 2017, the Supervisory Board as a group were offered benefits in the total amount of CZK 4 thousand.

DIVERSITY OF THE BOARD OF DIRECTORS & SUPERVISORY BOARD

In order to increase gender diversity on the Board of Directors and the Supervisory Board, the Company pays close attention to gender diversity in the process of recruiting and appointing new members to the Board of Directors and the Supervisory Board. The Company has open and non-discriminatory recruitment policies. As a result, both the Board of Directors and the Supervisory Board each have a woman member.

STRUCTURE OF THE AUDIT COMMITTEE

Established in mid-2017, the Audit Committee is responsible for monitoring the internal control systems of the Company, as well as its risk management system.

As of 20 December 2017, the Audit Committee had the following members, as indicated in the table below.

Audit Committee	Position	Name
	Chairman/ Member	Stanislav Staněk
	Member	Jiří Pelák
	Member	Radko Matyáš

Stanislav Staněk, Chairman/Member

Stanislav Staněk has been a member of the Audit Committee since 2017. He has worked in large auditing firms since 1991, and as a partner and director at Deloitte for fifteen years he led audits and other assurance engagements. He also has experience in consulting projects in accounting, IFRS implementation, and business acquisitions. Since 2004, he has been a member of the elected bodies of the Chamber of Auditors, and from 2012 to 2014 he was its Vice-President. He is a statutory auditor and member of the British Association of Chartered Certified Accountants. He is currently an Audit Committee member at Raiffeisenbank and NET4GAS.

Jiří Pelák, Member

Jiří Pelák has been a member of the Audit Committee since 2017. He currently works at the Department of Financial Accounting and Auditing at the Faculty of Finance and Accounting of the University of Economics, Prague. He is an auditor and the First Vice-President of the Chamber of Auditors of the Czech Republic. Working as a methodologist at Global Payments Europe for three years, he was responsible for managing the reporting of subsidiaries, and for consolidating and reporting to the parent company. As an expert, he worked on a number of interpretations of the National Accounting Board, application notes of the Chamber of Auditors of the Czech Republic, and participated in a translation of the International Financial Reporting Standards.

Radko Matyáš, Member

Radko Matyáš has been a member of the Audit Committee since 2017. He is a tax advisor and a member of the Chamber of Certified Accountants. Within the consultants group, he is in charge of the most important clients, and he has participated in a number of large transactions.

PROCEDURES OF THE AUDIT COMMITTEE

Below is a summary of relevant information concerning the procedures of the Audit Committee.
The Audit Committee is responsible for supervising the effectiveness of the internal controls and risk management systems of the Company.
The Audit Committee may also, on its own initiative, request any information in relation to internal and external audits and is entitled to access any relevant internal documentation.
Pursuant to the Bylaws, the Audit Committee must consist of three members. The general meeting of the Company appoints and recalls the members of the Audit Committee. Each Audit Committee member is appointed for a term of five years. Re-election of the same person is permitted.
More information on the rights, obligations and decision-making approach of the Audit Committee is available in ZOOT a.s. Bylaws, available online at https://corporate.zoot.cz/pro-investory/.

REMUNERATION OF THE AUDIT COMMITTEE

The remuneration for the individual members of the Audit Committee consists of one component: fixed base compensation. The total remuneration package of each is reflective of their responsibilities, their experience and the Company's remuneration policy.

The fixed base compensation is paid on a monthly basis to all members of the Audit Committee. In 2017, the Audit Committee as a group were paid a total amount of CZK 17 thousand in fixed base compensations, fully subject to applicable health, social and income taxes.

CONFLICTS OF INTEREST

Except as set forth earlier in this Report and under the *Risk of conflict of interest of the Company and Bondholders* section of this Report, no member of the Board of Directors, the Supervisory Board or the Audit Committee has a conflict of interest (actual or potential) between their private interests and their duties to the Company.

PROCEDURES OF THE GENERAL MEETING OF THE SHAREHOLDERS

The General Meeting of the shareholders is the Company's statutory body with the highest authority, and is convened by the Board of Directors at least once in an accounting period to be held no later than the 30th of June each year.

Below is a summary of relevant information concerning the procedures of the General Meeting.
The General Meeting is responsible for amendments to the Company's Articles of Association, approval of changes to the registered capital, appointment of Supervisory Board members, approval of financial statements, decisions on the distribution of profit or other corporate funds, liquidation related decisions and more.

Pursuant to the Bylaws, the decision-making procedure of the General Meeting implies one vote for each share. The General Meeting adopts its decisions by a majority of 91% (in words: ninety-one per cent) of votes of the present shareholders, unless the Act on Business Corporations or other law requires a different majority.

More information on the rights, obligations and decision-making approach of the General Meeting is available in ZOOT a.s. Bylaws, available online at https://corporate.zoot.cz/pro-investory/.

SHAREHOLDERS OF THE COMPANY

The Company is directly own by ZOOT B.V. of which the ultimate shareholders holding a 10% or greater interest in the share capital as of 31 December 2016 and 2017 are as follows:

	Interest in ultimate parent share capital	
Shareholder	**31 December 2016**	**31 December 2017[6]**
Oldřich Bajer	44.11%	39.36%
TCEE Fund III S.C.A. SICAR	33.49%	35.76%
Members of the Board of Directors	22.4%	19.75%
Other	0.00%	5.13%

The shareholders of the ultimate Parent Company control the Company via the Supervisory Board at the level of ZOOT B.V. where each shareholder has one nominated member, except for Oldřich Bajer who is chairman of the Supervisory Board of the Company. In addition, TCEE Fund III S.C.A. Sicar and BHS Fund II. - Private Equity, investment fund a.s. each have one member on the Supervisory Board of the Company. At the same time, Ladislav Trpák is chairman of the Board of Directors of the Company and Petr Ladžov is a member of the Board of Directors of the Company.

[6]Based on the Shareholder agreement the shareholding interests may be recalculated depending on final audited 2016 Consolidated Financial Statements of the Parent Company

COMPLIANCE WITH BEST PRACTICES

Towards the end of 2017, ZOOT BV, the Dutch-based Parent Company of ZOOT a.s., decided to initiate the implementation of The Dutch Corporate Governance Code (DCGC) for the entire Group. The DCGC contains best practice provisions for management boards, supervisory boards, shareholders and general meetings of shareholders, financial reporting, auditors, disclosure, compliance, enforcement standards, diversity policy, human rights and anti-corruption policies and it can be found at www.mccg.nl/english.

For ZOOT BV, this corporate governance code is not required and the Group has no obligation to file such a corporate governance report in the Netherlands, rather the Group decided to follow The Dutch Corporate Governance Code on a voluntary basis. Implementation was launched late in 2017 and was still ongoing at the time of publication of this present Report.

ZOOT a.s., being a joint stock company established in the Czech Republic, primarily follows and respects the requirements and obligations related to the applicable Czech law. Many of the Czech legal requirements that are mandatory for ZOOT a.s. as a joint stock company and bond issuer listed on the Prague Stock Exchange are compatible with the best practice provisions of The Dutch Corporate Governance Code, while others are currently in the process of gradual implementation. The Company envisages that any substantial deviations from the DCGC will be reported once the implementation is finalized.

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REPORT OF THE BOARD OF DIRECTORS

INTRODUCTION

2017 has been another strong year for ZOOT, as the Company made great progress towards our strategic goal of becoming the leading fashion omni-channel network within the CEE region. We were able to successfully scale our growth organically and further improve the efficiency of our operations. These operational achievements drove the Company's 2017 financial performance to new record values. In the Report below we are pleased to share more detailed information on the latest market trends, on the Company's business activities and its financial performance for the fiscal year 2017.

INDUSTRY UPDATE AND COMPETITIVE LANDSCAPE

The European online retail sector is estimated to have grown by 14% in 2017,[7] significantly outperforming the traditional retail industry where growth was estimated at only 1.4%.[8] In addition, online sales as a share of total retail sales continued to increase across Europe.[9] With clothing and sports apparel being the most popular category for online shoppers in Europe, the overall online fashion sector remains very attractive.

Migration from traditional retail towards online retail in the fashion industry has also continued in 2017. In the Czech Republic, which represents the Company's main market, the fashion retail sector was estimated to have reached CZK 84 billion.[10] The Company estimates that online fashion sales represent a total of CZK 18 billion. These estimates place ZOOT's market share at approximately 4% of the total online fashion sales in the Czech Republic in 2017.

Athleisure is becoming a new casual fashion style and many brands in the fashion world ran an athleisure collection in 2017. Sneakers are now also part of this new casual fashion style. Even premium brands have launched sneaker ranges e.g. Louis Vuitton and PRADA. This trend has been very well received as it supports the "well-being theme" which is now important in the fashion world as well. ZOOT is addressing the Athleisure boom with the launch of IVY PARK, Reebok and PUMA. Many brands have started "shop by fit" collections e.g. for full figure, petite, tall and maternity fits. ZOOT launched with brands like Ulla Popken and Gina Laura for the fuller figure.

COMPETITIVE LANDSCAPE

The fashion market in ZOOT's current geographies remains highly fragmented. ZOOT's 4% of the Czech online fashion market provides a relatively strong position. ZOOT's spontaneous brand awareness of 17% is the 2nd largest of the online fashion brands in the Czech Republic.[11] ZOOT is known as a place to buy chic, sophisticated clothing. It is also known for high quality vintage and artsy clothing.

The main competitors are large, well known brands from the traditional retail sector such as H&M, Zara, and Bonprix. Answear and Bibloo are the strongest on-line multi-brand competitors.
Our competitive advantage is based on inspiring and innovative content (daily newsletter, ZOOT magazine), 24/7 availability, fast delivery (the same day) and the comfort and low risk of trying the articles before purchase. We have also introduced new brands and articles that are not commonly known and cannot be found on price aggregator websites such as Heureka.cz or Zbozi.cz.
Based on proprietary research carried out by ZOOT, ZOOT's customers represent 35% of all heavy users of online shopping amongst women and 12% of heavy users of online fashion shopping amongst men.
The Company's website is the most visited fashion online website in the Czech Republic with 130 thousand daily visitors, [12]growing 30% YoY.

[7]Source: "European E-commerce Report 2017" by E-commerce Europe (https://www.ecommerce-europe.eu/research/ecommerce-europe-reports/)
[8]Source: "European Retail in 2017" report by GfK (https://www.eurocommerce.eu/media/141240/GfK%20-%20European_Retail_Study_2017.pdf)
[9]Source: "Retail e-commerce sales as share of retail trade in selected countries from 2014 to 2017" by Statista (https://www.statista.com/statistics/281241/online-share-of-retail-trade-in-european-countries/)
[10]Source: Statista online 2018
[11]Source: Proprietary ZOOT research
[12]Source: Proprietary ZOOT research

BUSINESS ACTIVITY

ZOOT is a fast-growing Central and Eastern European fashion market player with a unique platform that combines the best of the online and offline retail worlds. The Company's portfolio includes fashion and home accessories for men, women and children from more than 300 brands, representing renowned international labels and aspiring local designers.
ZOOT's strategic goal is to become the leading fashion omni-channel network within the CEE region. Apart from the Czech Republic, where it is the largest online fashion store, ZOOT also operates in Slovakia and Romania.

ZOOT PRODUCT & SERVICE PORTFOLIO
ZOOT sells mainstream and specialist fashion brands using its unique omni-channel platform. Successful portfolio selection is critical to the success of our business. New brands and suppliers are evaluated and added to our portfolio on an ongoing basis. Our experienced industry experts located in Prague travel extensively in order to build efficient relationships with suppliers and keep abreast of fashion trends.
The brands in ZOOT´s portfolio have reached a certain level of penetration that does not allow for experimentation with very many new brands. In 2017 ZOOT developed a consignment model that allowed it to test new brands without high risks of overstock at the end of the season. At the same time, niche and lesser known brands provide the desired and unique point of difference for ZOOT´s customers. In 2017 we have tested several collaborations and have established a portfolio of new consignment brands that provide not only the uniqueness, but ultimately remain profitable and help ZOOT with cash flow optimization.

During 2017, ZOOT successfully expanded the brand portfolio with more than 30 brands, as indicated below:

- Ladies fashion: Missguided, IVY PARK, Garcia Jeans, Lee, Cross Jeans, OASIS, Ulla Popken, Gina Laura, Miss KG, Swedish Hasbeens, Teva, Camper, Scholl, Reebok, Puma, Högl, Woden, Royal Republiq, UGG;
- Menswear: Lee, Wrangler, Pinqponq, Pack Society, Izipizi, Enter, Cross Jeans, JP1880, Makia, Suit, Farah, Royal Republiq, Garcia Jeans, Raging Bull.

ZOOT portfolio expansion in 2017 was in line with the new market trends, where atheleisure and special fit collections (such as curve, petite, tall and maternity) showed increased customer demand.
In addition, the "ZOOT size ranges" project was successfully launched, helping customers to select the right clothing size online. This new service is backed by innovative Artificial Intelligence technology.

ZOOT DISTRIBUTION CHANNELS
The ZOOT business model combines the best of the online and offline worlds, by allowing both home-delivery and "try before you buy" alternatives for purchase deliveries. Customer convenience is paramount for us. Our same-day purchase delivery is a key competitive advantage, which fully leverages customer spontaneity. In order to further enhance customer experience, during 2017 we also launched off-line sales in T&B stores.

ZOOT has one distribution hub located in Říčany outside of Prague. All items sold in any market are first processed and warehoused in this hub. In 2017 we successfully completed logistics automatization and a warehouse extension. This achievement extended expedition performance up to 130 thousand items per day and available storage up to 1.3 million items, thus providing logistics capacity until the year 2020.
In 2017, our Try & Buy store network grew by 9 new Try & Buy stores in the Czech Republic. As each newly opened T&B store leads to an average 55% increase of the conversion rate in the region within several weeks, this fast expansion of the ZOOT T&B network is clearly an achievement.

ZOOT EMPLOYEES
In line with our workforce diversity values, we employed 577 Employees with 16 nationalities as of 31 December 2017, representing an increase of 39% year on year. Our leadership team is gender-balanced (women represented about 45%) and international (3 nationalities), thus bringing together a diverse set of experiences and views in Company decision-making.
At ZOOT we encourage flexible, home-office and part-time working arrangements for women on maternity leave and for other employees working in positions where such arrangements are possible. At the same time, we are fully supportive of young students wanting to gain business experience as part of our Erasmus internship program.
The Company duly meets all its obligations arising from labour-law regulation and employment contracts and cares for the health and development of its employees through a number of training and sport activities.

AWARDS

In 2017, ZOOT was the overall winner of the “Big 5 award” in the Deloitte CE technology fast 50 2017 ranking. In addition, ZOOT won the Mastercard Millennials Retailer of the Year 2017 Award.
Besides these international awards, ZOOT received additional honours, high-rankings and industry recognition in the Czech Republic, which is presented in the media section of our corporate website.

2017 COMMERCIAL AND FINANCIAL HIGHLIGHTS

In line with our business achievements, 2017 has been another year of improved commercial and financial performance. Driven by strong organic growth, for the first time we surpassed the milestone of CZK 1 billion in revenues. In addition, our operational efficiency efforts led to further consolidation of our positive EBITDA position.

GROWING CUSTOMER BASE

In 2017, we further grew our customer base to more than 455 thousand customers. This represents a healthy 36% increase in comparison to the previous year. Of the total number of customers, the Czech customer base remains the largest with a share of 76%. The remaining share of 24% is represented by our customer bases in Romania and Slovakia, where the Company sells its portfolio brands via local distributors fully owned by ZOOT BV.
In addition to the healthy growth of the customer base, we are happy to report that the total number of items sold amounted to 1.7 million in 2017, representing an increase of 66% compared to 2016.

TOTAL REVENUES AT NEW RECORD LEVELS

The Company’s improved commercial performance led to a record high total revenue of CZK 1.1 billion, representing an improvement of 37% on the last year. Revenue from goods sold amounted to CZK 0.9 billion, up 36% year on year. Service revenue in 2017 amounted to CZK 133 million, compared to CZK 91 million in 2016.

GROSS MARGIN SLIGHTLY IMPROVING

Gross profit in 2017 amounted to CZK 531 million, showing an improvement of 37.9% compared to 2016. Transfer pricing represents a significant growth driver of the gross profit result. This translates to a 49.3% gross margin for 2017, slightly better than the 48.9% result reported the previous year.

MAINTAINED POSITIVE EBITDA IN SPITE OF STRONG ORGANIC GROWTH

In spite of the Company’s strong organic growth, we were able to maintain a positive EBITDA result, amounting to CZK 28.8 million. This represents a CZK 25.9 million increase compared to 2016.

NET LOSS CONTINUES TO DECREASE

The net loss for 2017 was reduced to CZK 26.9 million, compared to a net loss of CZK 32.7 million in 2016.

NEW DEBT CAPITAL SECURED TO FINANCE ORGANIC GROWTH

Just before the interest rates were expected to increase in 2017, we successfully secured new debt capital to finance the Company’s growth. On 1 September 2017, ZOOT a.s. issued subordinated bonds in a total value of CZK 150 million with fixed 6.5% p.a. interest paid regularly at the end of a six month period. The bonds were admitted and are fully traded on the Prague Stock Exchange with no trading restriction. The bonds were issued for a period of 4 years with the due date of 1 September 2021. During 2017 there was no interest payment to bondholders.

The bond issue was fully subscribed in less than one month, thus proving the strong investor trust that the Company has already achieved.

More details on the financial results of the Company can be found in the attached financial statements and accompanying notes for 2017 and 2016.

BALANCE SHEET ANALYSIS

The Company's balance sheet position is set out in the annual report on pages **32** and **33**. Details on the major movements of both assets and liabilities during the year are set out below:

ASSETS

Tangible fixed assets

Tangible fixed assets increased by CZK 30.2 million from CZK 18.1 million to CZK 48.3 million, mainly arising from the CZK 20.7 million investment in a new roller conveyor in our warehouse, the CZK 9.9 million on improvements to the newly set up Try & Buy stores and CZK 5.5 million in other fixed assets. This was partially offset by depreciation charges.

Intangible fixed assets

Intangible fixed assets increased by CZK 9.5 million from CZK 14.8 million to CZK 24.3 million, mainly arising from internally developed and capitalized costs with respect to the new ERP system and related components of CZK 11.3 million. This was partially offset by CZK 1.2 million of depreciation charges.

Inventories

Our Inventories increased by CZK 46.4 million from CZK 158.5 million to CZK 204.9 million. The increase corresponds to the organic growth of our sales by 36% year on year which demands the maintenance of a higher amount of goods in stock.

Receivables

Receivables increased by CZK 173.6 million from CZK 184.8 million to CZK 358.4 million, mainly thanks to an increase of intercompany sales to ZOOT SK and ZOOT RO in the amounts of CZK 116.0 million and CZK 62.5 million respectively. In addition, Receivables increased by CZK 6.8 million thanks to an increase in the deferred tax receivable which consists primarily of historical net operational losses which the Company believes will be fully utilized in the upcoming years before expiration.

Cash and cash equivalents

Cash and cash equivalents increased by CZK 26.3 million from CZK 22.4 million to CZK 48.7 million, mainly thanks to the improved cash management processes.

TOTAL LIABILITIES & EQUITY

Equity

Equity increased by CZK 223.3 million from CZK (157.4) million to CZK 65.9 million, mainly thanks to voluntary additional contributions outside the registered capital in the amounts of CZK 58.1 million and CZK 192.0 million provided in March 2017 and June 2017 respectively. In addition the equity is decreased due to the current year loss of CZK 26.9 million.

Long-term payables

Long-term payables decreased by CZK 40.9 million from CZK 350.9 million to CZK 310.0 million, mainly thanks to the repayment of an intercompany loan to the Parent Company in the amount of CZK 190.7 million, offset by the issuance of new bonds in the amount of CZK 150 million.

Short-term payables

Short-term payables increased by CZK 108.9 million from CZK 207.7 million to CZK 316.6 million, mainly due to an increase of CZK 65.4 million in trade payable. This trade payable change is the result of a 36% increase in inventories and more favourable conditions negotiated with certain suppliers in combination with using a reverse factoring facility. In addition, short term facility credit lines with bank institutions increased by CZK 23.4 million and estimated unpaid interests from issued bonds by CZK 19.7 million.

More details can be found in the attached financial statements and accompanying notes for 2017 and 2016.

SIGNIFICANT POST BALANCE SHEET EVENTS

Between the balance sheet date of 31 December 2017 and the date of publication of this Annual Report, no significant events have occurred that would have an impact on the fulfilment of the purpose of this Annual Report, pursuant to Section 21 (1) of Act No. 563/1991, the Accounting Act, as amended, other than the following:

- Jiří Beneš was discharged from the ZOOT BV Supervisory Board on 1 March 2018 and Elbruz Yilmaz was elected on the same day as a new member of the ZOOT BV Supervisory Board.

INTERNAL CONTROLS

ZOOT's management is responsible for establishing and maintaining adequate internal controls and risk management.

Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of published financial statements in accordance with CZ GAAP and include the following procedures:

- to provide reasonable assurance that the principles of financial reporting and disclosure are in compliance with CZ GAAP
- to provide reasonable assurance that revenues cut off are held at the end of the financial period
- to provide reasonable assurance that disclosed information is accurate
- to provide reasonable assurance of follow up provisions principles

ZOOT is aware of the risk related to the preparation of financial and accounting information due to the complexity of the processes accompanying the preparation of the financial statements. There is a risk of misinterpretation of accounting standards, procedures and principles, mistaken judgment in accounting estimates, misinterpretations of non-routine transactions, and also the risk of administrative errors, intentional fraudulent behaviour by employees or internal control failures as a result of which there may be erroneous calculations, omissions, erroneous entries or classifications in certain accounting cases.

To mitigate such risks, the following procedures are taken:

- a data system check for general accounting documents is done daily (comparing the number of documents in the ERP system and the accounting system)
- financial knowledge training is provided across the firm regarding the applicable requirements of financial accounting and reporting

ZOOT is a data driven company and as such we are continuously taking steps to further enhance our internal control environment, which include, but are not limited to, further optimizing and strengthening our IT systems by putting in place a greater number of automated processes and controls.

RISK FACTORS

The order in which these risk factors are listed is not indicative of the probability of their occurrence or the extent of their possible commercial impact. The following summary of risk factors is not exhaustive and does not substitute any expert analysis.

RISKS FACTORS RELATING TO THE COMPANY AND THE GROUP

FINANCIAL RISKS

The overall financial risk management of the Company focuses on specific financial risks arising out of the financial instruments which the Company and the Group are exposed to due to their activities. The financial risks of the Company and the Group namely include a risk arising out of the losses of the Company to date, a credit risk, an interest rate risk and an exchange rate risk.

The financial risk management of the Company is supervised in each area of the business based on reporting as part of the decision-making of the Company's management and statutory bodies.

Risks arising out of the Company's losses to date

The Company has posted a loss in all prior accounting periods. As a result of the accumulation of losses from past accounting periods and the low amount of the registered capital and other capital funds, the Company posted a negative equity of CZK (157.4) million as of 31 December 2016. This means that, to a considerable extent, the Company financed its business losses out of third party funds. This also means that the ability of the Company to continuously pay its debts depends on either the continued availability of third party funding necessary for further financing of the current, as well as any future, losses arising from the business, in addition to the Company's financial needs; or on the ability of the Company to increase its equity (from future profits or through the entry of an investor).

In order to mitigate this risk, in March 2017 the Parent Company provided the Company with the amount of CZK 58.1 million in the form of a voluntary additional contribution outside the registered capital. In this way, the Parent Company used a certain portion of the investment contributed to its registered capital by BHS Fund II. – Private Equity, investiční fond s proměnným základním kapitálem, a.s. in connection with its capital entry in the Parent Company. In June 2017, the Parent Company further provided the Company with the amount of CZK 192.0 million in the form of a voluntary additional contribution outside the registered capital. This contribution was to capitalize (1) a part of the receivables of the Parent Company from the Company on account of loans for consumption provided in previous years for the Company's business development, and (2) the receivables from the loans for consumption provided by the Parent Company to the Company in 2016, which the Parent Company acquired as an investment from TCEE FUND III S.C.A. SICAR in connection with the capital entry of this company in the Parent Company. Due to the above transactions, the Company's equity was increased by CZK 250.1 million compared to the situation as of 31 December 2016 (CZK (157.4) million) and the Company's equity was CZK 103.5 million as of 31 December 2017.

Credit risk

The credit risk of the Company is represented by a risk of financial loss in case a customer or counter-party of a financial instrument fails to meet its contractual duties, and arises particularly under the Company's receivables from customers and the provided loans or loans for consumption.

As regards assessment of the Company's credit risk, it is important to take into account that the Company has a large volume of receivables from its affiliates ZOOT SK and ZOOT RO. As of 31 December 2017, the Company had receivables in the amount of CZK 201.8 million from ZOOT SK and CZK 140.0 million from ZOOT RO on account of supplied goods and provided services. Some of these receivables were more than 90 days past due, specifically, these were receivables of CZK 8.3 million from ZOOT SK and CZK 84.7 million from ZOOT RO.

In order to mitigate this risk, the Company has partly financed the working capital of ZOOT SK and ZOOT RO and has taken measures to closely monitor the ongoing performance of these distributors. Given the reported losses from business activities and the strong dependence on the Company and the Parent Company, the ability of ZOOT SK and ZOOT RO to obtain financing from outside the Group is very limited. To a great extent, their ability to continue paying their debt vis-à-vis the Company depends on whether or not they obtain the necessary financial funds from the Parent Company, which is something that the Company cannot influence.

Risk of growing interest rates

As of 31 December 2017, the Company reported a large volume of interest-bearing liabilities (a total of CZK 333.4 million), of which: (i) approximately 24% were represented by Bonds issued in 2016 (CZK 80 million) bearing a fixed rate interest (i.e. 6.5% p.a.), (ii) approximately 45% were represented by Bonds issued in 2017 (CZK 150 million) bearing a fixed rate interest (i.e. 6.5% p.a.) and (iii) approximately 31% were represented by bank loans (CZK 103.4 million) bearing a floating rate interest (i.e. PRIBOR/PRIBORCiti + business margin between 3.55% and 4.55% p.a.). On the other hand, the Company did not report any major interest bearing assets as of the same date. Given the different volume of interest bearing liabilities and interest bearing assets, the Company's business is exposed to the risk of growing interest rates, as growing interest rates will increase the Company's interest costs and these increased costs will not be compensated by increased interest income.

In order to mitigate this risk, in 2017 the Company sought to increase its exposure to fixed-rate interest paying debt rather than using floating rate interest debt financing. The Company closely monitors this risk on an ongoing basis. As of the time of this Report, the Company was not using any security instruments against growing interest rates.

Risk of changing exchange rates

The Company's main transactional currencies are CZK, EUR, USD and GBP. Prices for purchases of goods are mostly denominated and paid in EUR (roughly 55%) and, to a lesser extent, in CZK (roughly 27%) and GBP (roughly 17%). On the other hand, most of the Company's revenues (roughly 76%) are denominated and paid in CZK, to a lesser extent in EUR (roughly 18%) and RON (8%). The Company is, therefore, exposed to the influence of exchange rate fluctuations upon its financial position and cash flow.

In order to mitigate this risk, the Company closely monitors the market developments and seeks to use better balance revenues and costs related to the same currency. The Company does not currently use any security instruments against exchange rate fluctuation.

Risk of conflict of interest of the Company and the Bondholders

It is impossible to guarantee that, in the future, the Company will not take steps (i.e. a merger, transaction, acquisition, profit distribution, sale of assets, etc.) that may be to the benefit of the Company and its shareholder rather than to the benefit of the Bondholders. Such changes may have an adverse impact on the financial and economic situation of the Company, its business activities and ability to perform its duties under the Bonds.

Some of the persons in the management and supervisory bodies of the Company are major shareholders of the Parent Company and also perform offices in other entities personally or otherwise affiliated with the Company.

Where such persons act on behalf of the Company, their conduct and decisions with respect to the Company's interests may be influenced by a conflict of interest. In such cases, it is impossible to generally guarantee that these persons, when considering various, possibly contradictory, interests relating to the Company, will not make a decision that they would not have made had no such affiliations existed. It cannot be ruled out that such decisions could have adverse impact on economic results and the financial situation of the Company and its ability to perform its duties under the Bonds.

In this context, the Company considers as material to particularly point out the following:

- Mr. Luděk Palata is also a member of the Management Board of BHS Fund II. – Private Equity, investiční fond s proměnným základním kapitálem, a.s., which is a shareholder of the Parent Company. BH Securities, as the Manager and Administrator of the issue of the Bonds, holds 50% of the shares in BHS Fund II. – Private Equity, investiční fond s proměnným základním kapitálem, a.s. In addition BH Securities a.s. purchased 900 subordinated bonds at a nominal value of one thousand each issued on 1 September 2017;
- Messrs. Petr Ladžov and Oldřich Bajer are also major shareholders of the Parent Company and members of the Supervisory Board of the Parent Company; Mr. Petr Ladžov is also an executive of ZOOT RO and ZOOT SK; and
- Mr. Ladislav Trpák is also a major shareholder in the Parent Company and an executive of ZOOT RO and ZOOT SK.
- Messrs. Ladislav Trpák and Petr Ladžov are also shareholders of Echilon Capital s.r.o., a company which has indirect interests in the share capital of Invoice Financing s.r.o., a supply-chain finance business which also does business with the Company.
- Mrs. Pavlína Ladžov, wife of Petr Ladžov, purchased 200 subordinated bonds at a nominal value of one thousand each issued on 1 September 2017 by the Company.

In order to mitigate this risk, the Company is committed to timely disclosure, transparent decision-making and reporting.

Risk of initiation of insolvency proceedings

Pursuant to Act No. 182/2006 Sb., on Bankruptcy and Manners of Its Resolution, as amended ("Insolvency Act"), the debtor becomes bankrupt if it has more creditors and pecuniary debts for a period longer than 30 days after the due date and is unable to pay such debts, or if it is over-indebted. Insolvency proceedings may only be initiated by a petition, which may be filed by the debtor or its creditor. Where there is a threat of bankruptcy, such petition may only be filed by the debtor.

Despite certain measures that are to prevent unjustified and unfounded petitions for initiation of insolvency proceedings, it is impossible to rule out that no such petitions will be filed. Insolvency proceedings are initiated by a court decree no later than 2 hours from delivery of a petition for insolvency to the respective court. Between the publication of the decree and the court decision on the petition for insolvency (unless the court decides otherwise), the debtor is obligated to refrain from disposing of the underlying assets and any property belonging to these, if this was to involve material changes in the composition, use or purpose of such assets and/or their other than negligible reduction. Pursuant to the Insolvency Act, the court will immediately decide about an insolvency petition filed by three persons; the Insolvency Act does not stipulate any more specific deadline for such decision.

Despite the fact that the restriction regarding the disposal of underlying assets does not apply to acts necessary to operate the business in the course of day-to-day management or to avert any threatening damage, it is impossible to rule out a situation where, should an unjustified petition for initiation of insolvency proceedings be filed, the Company's disposal of its assets would be limited for an indefinite period of time, which could adversely impact the Company's financial position and its business results and, hence, its ability to pay the yield on the Bonds or, as the case may be, to pay the nominal value of the Bonds.

In order to mitigate this risk, the Company is committed to closely monitoring this potential risk and to following transparent decision-making and disclosing in a timely manner any significant related events.

Risk related to legal, regulatory and tax environments

The legal, regulatory and tax environments in the Czech Republic are subject to frequent changes and the laws are not always enforced by courts and government authorities in a uniform manner. Any changes to laws or changes in their interpretation in the future may adversely influence the operational activities and financial prospects of the Company. In particular, changes to tax laws may have an adverse impact on the Company's ability to fulfil its duties under the Bonds.

In order to mitigate this risk, the Company works closely with a number of expert external advisors and aims to prepare in advance for any significant changes which might lead to any material negative impact to the business.

OPERATIONAL RISKS

Transactional risk

A transactional risk is a risk of loss arising out of any fraud, unauthorized activities, errors, omissions, ineffectiveness or failure of the system. Such a risk occurs with respect to all activities of the Company and is faced by any business corporation.

In order to mitigate this risk, the Company seeks to continuously improve its own internal controls and policies and to continuously monitor and evaluate the relevant operations.

Court and regulatory proceedings

During the conduct of day-to-day business, claims or court proceedings may occur that cause a threat to the Company. The amounts sought may be considerable and the Company is generally unable to foresee the final outcome of such claims and proceedings. Even though no court or regulatory proceedings are currently pending or threatening, an adverse outcome of which could have material adverse impact on the Company's financial situation or reputation, it is impossible to guarantee that no such court proceedings will be conducted in the future and that they will not have a material adverse impact on the Company's business, financial situation or operational results.

In order to mitigate this risk, the Company seeks to cooperate with experienced experts and advisors on an ongoing basis.

Loss of know-how, employees of the Company and human resources related risks

Employees and their knowledge and skills are essential for the effective performance of the Company. While the hiring and education of employees are long-term processes, their loss may be quite quick.

Risks in this area involve failure to maintain a desirable age and gender structure, the quality of the Company's employees, lack of adequate personnel for key positions, loss of know-how, excessive dependence on external assistance in the areas of professional knowledge, key specialists leaving without handing over their know-how, carrying over of non-functional and obsolete habits, low willingness of employees to change, lack of necessary new employees in undersized key areas, lack of qualified candidates on the labour market and the low quality of graduates entering the labour market (lower attraction of technical fields).

Loss of important employees or the inability to hire, train or retain highly qualified employees necessary for the support of the Company's obligations, implementation of its investment plan and development of new business areas could have a temporary adverse impact on the Company's ability to implement its long-term strategy and could have a material adverse impact on the Company's expertise, business, know-how, operations, financial situation, prospects and ability to achieve its strategic goals.

In order to mitigate this risk, the Company monitors and seeks to continuously improve its employee selection and retention efforts and to position itself as an attractive employer.

Risk of loss of key persons

The key persons of the Company, i.e. members of the Board of Directors and the management, are involved in the setting and implementation of the strategic goals and activities of the Company. Their activities are decisive for the overall management activities of the Company and its ability to create, change and implement these strategies. It is impossible to rule out the loss of one or more key persons, which could adversely affect the Company's business, operational activities, financial performance and financial prospects.

In order to mitigate this risk, the Company seeks to adequately incentivise its top management team and to transparently balance its performance and remuneration policies.

Risks relating to information systems

The Company operates highly complex and sophisticated information systems (such as servers, networks, applications and databases) (IT Systems), which are necessary for the day-to-day functioning of its business and technical activities. Reliability and uninterrupted functioning of the IT Systems are crucial for the efficient and reliable functioning of the transmission system. Even though the Company continually adopts measures to improve its IT Systems and IT processes, it is impossible to guarantee that there will be no failure of hardware or software, computer viruses attacks, accidents or disruption of security. These events could impair the Company's ability to provide all or some services, which must be provided under law or based on agreements to which the Company is a party, which could have a material adverse impact on the Company's business, financial situation and operational results.

In order to mitigate this risk, the Company seeks to continuously upgrade, improve and innovate its critical systems and closely monitors their ongoing performance.

The Company is exposed to risks connected with its international business

The Company is exposed to risks connected with its international business. Revenues achieved in individual countries to which the Company supplies its goods have the following share in the total revenues of the Company (calculated on the basis of sales to end-customers): Czech Republic – 76%; Slovak Republic – 16%; and Romania – 8%. Due to the partially international nature of its business, the Company is sensitive to any political, legal or economic instability (namely in the Slovak Republic and Romania), which may have adverse impact on its business.

In order to mitigate this risk, the Company closely monitors the relevant markets, cooperates with experienced advisers and seeks to address any potentially negative changes in a timely manner.

Risk relating to changes in consumer preferences and reduction in the growth or decline of online markets for fashion goods

The Company's business results depend on the continued development and growth of online markets for fashion goods in the countries where the Company operates either directly or indirectly via its affiliated distributors (i.e. Czech Republic, Slovak Republic, and Romania). Sales of the Company have grown considerably in the past, from CZK 786.3 million in 2016 to CZK 1 075 million in 2017. Any further growth of the online fashion goods market will depend on the general degree of adoption of online purchasing, on how significant consumers will find the aspect of comfort compared to the aspect of price as motivation for online purchases, and on the success of the effort to attract a wider group of consumers through increased availability and user friendliness of the online offer of fashion goods. However, there is no guarantee that the above markets for fashion goods where the Company and the Group are active will continue to grow at the same rate as they have done recently, or that they will grow at all. Slower growth, stagnation or a drop in the relevant markets for fashion goods could have a considerable adverse impact on the income and prospects of the Company and the Group, and could have a significant adverse impact upon the ability of the Company to pay its debts under the Bonds.

In order to mitigate this risk, the Company closely monitors the competitive landscape and latest research reports. Any significant changes in industry trends are promptly analysed and considered by the management team.

Risks associated with an unfavourable macroeconomic and political situation

The economic results of the Company and the Group depend on the overall macroeconomic situation and political stability in the countries where the Company and the Group are active (Czech Republic, Slovak Republic, Romania), as well as in the region to which these countries belong (Central and Eastern European region). Adverse developments in the overall macroeconomic situation or political instability dampen the economic activity of entrepreneurs, the business partners of the Company, and are a major influence in their current as well as future decision-making. Negative economic developments usually have a progressively negative impact on the degree of consumer confidence and on the level of non-mandatory consumption spending (i.e. spending on unnecessary expenses; necessary expenses customarily include expenses on rent, electricity, heating, fuel, water and sewage, food, healthcare, postal services, and telecommunications), including expenses on fashion goods which are the source of the Company's and the Group's sales. The Czech Republic was recently subject to strong deflation pressures. The risk of deflation in the Czech Republic and the other countries where the Group is active cannot be ruled out in the near future. Deflation may result in reduced investment activities in the affected countries and, hence, in lower employment and a strengthening of recession tendencies. An unfavourable overall macroeconomic situation may also cause or strengthen political pressures for increasing taxes in order to preserve a sustainable amount of public debt. An increase in taxes could then cause a general rise in the prices of products and goods (including goods offered by the Company and companies of the Group, as well as products and services purchased by them) and lead to a drop in the available funds of consumers and to weaker demand for fashion goods. Any of the above negative developments could have a significant adverse impact upon the operations, financial performance and financial prospects of the Company and the Group.

In order to mitigate this risk, the Company closely monitors the relevant macroeconomic and political changes, cooperates with experienced advisers and seeks to address any potentially negative impacts in a timely manner.

Risks involving increased costs due to a higher percentage of uncollected or returned goods

The online sale of fashion goods is associated with the risk of customers not collecting the goods they have ordered, or subsequently returning the collected goods and rescinding the purchase agreement. The right of customers to rescind a purchase agreement before the takeover of the goods, or within a set deadline after the goods have been delivered, ensues from generally binding legal regulations and is also granted to customers by the commercial terms and conditions of the Company as an integral part of the customer service. For that matter, the period of time for rescinding a purchase agreement and returning the goods (90 days) as granted to customers by the commercial terms and conditions of the Company is even longer than required by applicable legal regulations. If the Company fails to manage and fulfil the expectations of customers as to the properties of the purchased goods, or if the percentage of the uncollected or returned goods increases for other reasons (such as due to a change in customer behaviour), it could lead to the Company incurring increased costs in connection with the sale and delivery of the returned or uncollected goods or to the loss of current or prospective customers. Increased costs or losses of current or prospective customers could then have a significant adverse impact on the economic results and financial situation of the Company.

In order to mitigate this risk, the Company performs detailed controls of incoming products, supplier assurance and management processes as well as regular controls of the production process by company laboratories. Product recall procedures are tested regularly.

Risks relating to compilation of financial and accounting information

Given the complexity of the processes accompanying the preparation of financial statements, there is a risk of an incorrect interpretation of accounting standards, procedures and principles, misjudgement in making accounting estimates, incorrect interpretation of non-routine transactions as well as a risk of an administrative error or mistake, wilful misconduct by the Company's employees or an internal control failure which could result in incorrect calculations, omissions, incorrect records or classification of some accounting cases. All of these circumstances could cause the published financial statements not to correspond to actual data, provided that such an error may, or may not, be subsequently discovered and disclosed. Although the financial statements are audited by an established auditing company, it ensues from the audit and auditing processes that some errors may remain undiscovered, which may result in incorrect data being recorded and presented in the financial statements of the Company.

In order to mitigate these risks, the Company continues to advance and closely monitor its internal control systems and procedures, as detailed in the Internal Controls section of the current Report.

Tax-related risks

The business activities of the Company are governed by tax regulations of the Czech Republic. The regulations in various tax regimes are subject to changes and may be subject to various (and varying over time) interpretations, which may result in the tax implications for a particular investment or structure (including repatriation of profit) changing (worsening) following such an investment. At the same time, the Company is obligated to comply with regulations and accommodate changes in tax regimes, some of which originate at the level of the European Union. This may result in the Company incurring increased costs in monitoring and accommodating such changes during the investments. The above changes and various interpretations of tax regulations may lead to an increased tax burden, which may in turn have an adverse impact on the operations, financial performance and financial prospects of the Company.

In order to mitigate these risks, the Company monitors the relevant legislative changes, cooperates with experienced tax advisers and seeks to address any potentially negative impacts in a timely manner.

RISK FACTORS RELATING TO BONDS TRADING ON THE SECONDARY MARKET

General risks relating to Bonds

Potential investors in the Bonds must determine by themselves whether or not such an investment is appropriate, depending on their own situation. Each investor should above all:

- Have sufficient knowledge and experience to pragmatically assess the Bonds, the benefits and risks of investing into the Bonds as well as the information provided in the Annual Report and Prospectus (including any amendments hereto);
- Have knowledge of and access to adequate analytical tools of assessment, always within the context of the investor's particular financial situation, investment in the Bonds and its impact on the overall investment portfolio;
- Have sufficient financial means and liquidity to be prepared to bear all the risks of an investment in the Bonds;
- Fully understand the terms and conditions of the Bonds (above all, the Terms and Conditions of Issue and this Prospectus, including any amendments hereto) and be acquainted with the behaviour of or developments in the financial markets;
- Be able to evaluate (whether by itself or with the assistance of a financial advisor) the different scenarios of further developments in the economy, interest rates or other factors that may influence its investment and its ability to bear potential risks.

An investor bears the risk of any inappropriateness of an investment in the Bonds.

Risks arising out of subordination of Bonds

The Bonds are subordinated bonds pursuant to Sec. 34 of the Act on Bonds, within the extent and under the terms and conditions as detailed in the Terms and Conditions of Issue. This means that if the Company enters into liquidation or a decision is issued on the Company's bankruptcy, receivables from redemption of the principal of the Bonds will only be satisfied after Senior Receivables have been fulfilled. Subordinated Receivables and other receivables that are bound by the same condition of subordination will be satisfied according to their ranking. Senior Receivables are generally all receivables of banks vis-à-vis the Company under a loan or other financing, including both receivables existing as of the balance sheet date and any future receivables arising between the Issue Date and the day preceding the Final Maturity of Bonds. As of 31 December 2017, the aggregate amount of Senior Receivable is CZK 173.2 million (of which CZK 103.4 million are bank loans) which is an increase compared to the date of the Prospectus, when the aggregate amount of Senior Receivables was CZK 165.4 million (of which CZK 110.8 million were bank loans, with the remainder being contingent liabilities under letters of credit and bank guarantees).

Risks of acceptance of additional debt financing by the Company

The Terms and Conditions of Issue enable the Company to accept additional debt financing up to the total amount of CZK 10 million as well as assume (1) any Financial Debt for a person/entity being "controlled" by or "controlling" the Company, and (2) any Financial Debt vis-à-vis bank creditors up to the total amount of CZK 300 million. Acceptance of any further (secured or unsecured) debt financing may eventually result in the receivables of the Bondholders being satisfied in insolvency proceedings to a lesser degree than they would have been had such debt financing not been accepted. The growing debt financing of the Company also increases the risk that the Company may default upon payment of its debt under the Bonds, which could result in an investor completely or partially losing its investments in the Bonds.

Risks of interest rates on Bonds

A fixed-interest rate Bondholder is exposed to a risk of the price of such a Bond dropping due to a change in market interest rates. While the nominal interest rate is fixed during the existence of the Bonds, the current interest rate in the capital market ("Market Interest Rate") usually changes daily. Any change in the Market Interest Rate is connected with the price of a fixed-interest rate Bond changing in the opposite direction. Consequently, if the Market Interest Rate increases, the price of a fixed-interest rate Bond usually drops under a level where the yield on such Bonds is approximately equal to the Market Interest Rate. If, on the contrary, the Market Interest Rate decreases, the price of a fixed-interest rate Bond usually increases to a level where the yield on such a Bond approximately equals the Market Interest Rate. This fact may have an adverse impact on the value and development of an investment in the Bonds.

Risk of liquidity

The Company will apply for admission of the Bonds for trading on the regulated market of the Prague Stock Exchange. Notwithstanding the acceptance of the Bonds for trading on the regulated market, there can be no assurance that a sufficiently liquid secondary Bond market will be created and, if so, that such a secondary market will function in the long term. The fact that the Bonds may be accepted for trading on the regulated market does not necessarily lead to a higher liquidity of such Bonds compared to Bonds not accepted for trading on the regulated market. In case of Bonds that are not traded on the regulated market, it may be difficult to valuate such Bonds, which may have a negative impact on their liquidity. An investor may not be able to sell the Bonds at any time for an adequate market price on a non-liquid market. This fact could have a negative impact on the value of an investment in the Bonds.

Fees

The overall recovery of investments in the Bonds may be influenced by the levels of fees charged by a securities trader or other broker for the purchase and sale of the Bonds, or those charged by the relevant clearance system used by an investor. Such a person or institution may charge fees for the opening and maintenance of an investment account, securities transfers, services connected with securities custody, etc. For this reason, the Company recommends that any future investors in the Bonds become familiar with the underlying materials based on which fees relating to the Bonds will be charged. This fact may have a negative impact on the value of the Bonds.

Risk of no redemption

With bonds – similar to any other monetary debt – there is a risk of no redemption. Under certain circumstances, the Company may not be able to pay the interest due under the Bonds and the value for the Bondholders on the redemption or maturity of the Bonds may be lower than the amount of their original investment; under certain circumstances, this value may be equal to zero.

Risks of early redemption

If the Bonds are redeemed early before their maturity, in line with the Terms and Conditions of Issue, a Bondholder is exposed to the risk of a lower than expected yield due to such early redemption.

Risk of taxation

Potential purchasers or sellers of the Bonds should be aware that they may be obligated to pay taxes or other fees pursuant to the laws and customs of the country where a Bonds transfer is effected or the country of their citizenship or residence, or of another country relevant to the given situation. In some countries, there may not be any official statements by the tax authorities or any court decisions regarding financial instruments such as bonds. In the acquisition, sale or redemption of these Bonds, potential investors should not rely on the brief summary of tax issues as included in the Prospectus (Chapter 12 "Taxation and Foreign Exchange Regulation in the Czech Republic"), but should act as recommended by their tax advisors given their individual taxation. Any changes to tax regulations may cause the resulting yield on the Bonds to be lower than originally expected by the Bondholders, or for a Bondholder to be paid a lower than originally expected amount in the sale or upon maturity of the Bonds.

Risk of inflation

Potential purchasers or sellers of the Bonds should be aware that the Bonds do not include an anti-inflation clause, and that the real value of the investment in the Bonds may decrease along with the devaluation of the currency by inflation. At the same time, inflation may cause a decrease in the actual yield on the Bonds. If the inflation rate exceeds the amount of the nominal yield on the Bonds, the amount of the actual yield on the Bonds will be negative.

Risk of unlawfulness of Bond purchases

Potential purchasers of the Bonds (particularly foreign subjects) should be aware that the purchase of the Bonds may be subject to statutory restrictions influencing the validity of their acquisition. The Company has and assumes no liability for the lawfulness of the acquisition of the Bonds by their potential purchaser, whether under the laws of the country (jurisdiction) of its establishment or residency, or the country where the purchaser is active (if different from the former). Potential purchasers cannot rely upon the Company in terms of their decisions regarding the lawfulness of their acquisition of the Bonds.

Risks arising out of change of law

The Terms and Conditions of Issue are governed by Czech laws valid as of the date of the Prospectus. Following the issue date of the Bonds, there may be a change in legal regulations applicable to the rights and duties under the Bonds. The Company cannot provide any guarantee as to the consequences of any court decision or change in the Czech laws or the official practices after the date of this Prospectus. This fact may have a negative impact on the value and developments of investments in the Bonds. The development and changes in the applicable law, over which the Company has no control, could have a significant impact on the Czech economy and, hence, on the business, economic and financial situation of the Company or its ability to accomplish its business targets.

Risk of unforeseeable events in relation to the value of Bonds

An unforeseeable event (natural catastrophe, terrorist attack) causing disruptions in the financial markets or abrupt exchange rate changes may influence the value of the Bonds. The negative impact of such an event could also result in lower returns on the money invested by the Company and jeopardize the ability of the Company to pay its debts under the Bonds. Furthermore, the value of the Bonds and any income from them may be influenced by a global event (of a political, economic, or other nature) that may take place in a country different from that where the Bonds are issued and traded.

The Company cannot pro-actively mitigate and control any of the risks relating to bonds trading on the secondary market.

ONGOING LEGAL DISPUTES

During the fiscal year 2017, the Company was involved in an ongoing legal dispute in relation to the intellectual property of the ZOOT brand. The Company does not expect that the settlement would have a material impact on its Financial Statements.

SIGNIFICANT CONTRACTS

As of 31 December 2017, the Company does not have any material contracts out of the ordinary course of its business. As part of the ordinary course of its business, the Company has one significant goods supplier delivering more than 20% of the total sold items and one significant distributor contributing by more than 20% to the total revenue.

OUTLOOK

ZOOT aims to continue its growth strategy while also maintaining its focus on the overall operational profitability, or on variable cost optimization.

Specifically, we will continue to expand our unique Try & Buy concept in capital and secondary cities in the Czech Republic and Slovakia. We plan to further strengthen our knowledge in Data and Performance marketing and to enhance our AI-driven technology in order to make it more effective and easily customizable by our clients.

Provided that the current beneficial market environment remains, we estimate that the total revenues for the fiscal year 2018 will range between CZK 1.1 billion and CZK 1.4 billion.

DECLARATION

The Board of Directors declares that, according to the best of their knowledge, the current report and the financial statements present a true and fair view of the financial position, business activities and profit of the Company for the previous financial year and of the outlook for the future development of its financial position, business activities and profit.

Ladislav Trpák	Petr Ladžov	Hana Matuštíková

03 FINANCIAL STATEMENTS 2017 ZOOT A.S.

BALANCE SHEET
FOR THE YEAR ENDED 31 DECEMBER 2017

(CZK'000)

As of 31 December		2017			2016
		Gross	Adjustment	Net	Net
TOTAL ASSETS		**728 010**	**30 526**	**697 484**	**404 044**
A.	**Receivables for subscribed capital**				
B.	**Fixed assets**	**101 061**	**28 242**	**72 819**	**33 089**
B.I.	**Intangible fixed assets**	**42 972**	**18 681**	**24 291**	**14 797**
B.I.2.	Valuable rights	39 101	18 681	20 420	8 051
B.I.2.1.	Software	38 967	18 642	20 325	7 943
B.I.2.2.	Other valuable rights	134	39	95	108
B.I.5.	Prepayments for intangible fixed assets and intangible fixed assets under construction	**3 871**	**-**	**3 871**	**6 746**
B.I.5.2.	Intangible fixed assets under construction	3 871	-	3 871	6 746
B.II.	**Tangible fixed assets**	**57 889**	**9 561**	**48 328**	**18 092**
B.II.1.	Land and structures	1 660	466	1 194	426
B.II.1.2.	Structures	1 660	466	1 194	426
B.II.2.	Tangible movable assets and sets of tangible movable assets	54 914	8 949	45 965	17 574
B.II.5.	Prepayments for tangible fixed assets and tangible fixed assets under construction	1 315	146	1 169	92
B.II.5.2.	Tangible fixed assets under construction	1 315	146	1 169	92
B.III.	**Non-current financial assets**	**200**	**-**	**200**	**200**
B.III.1.	Equity investments - controlled or controlling entity	**200**	**-**	**200**	**200**
C.	**Current assets**	**614 300**	**2 284**	**612 016**	**365 722**
C.I.	**Inventories**	**206 798**	**1 854**	**204 944**	**158 535**
C.I.3.	Products and goods	205 701	1 854	203 847	157 884
C.I.3.2.	Goods	**205 701**	**1 854**	**203 847**	**157 884**
C.I.5.	Prepayments for inventories	1 097	-	1 097	651
C.II.	**Receivables**	**358 822**	**430**	**358 392**	**184 790**
C.II.1.	Long-term receivables	**10 102**	**-**	**10 102**	**2 415**
C.II.1.4.	Deferred tax asset	6 799	-	6 799	-
C.II.1.5.	Receivables - other	3 303	-	3 303	2 415
C.II.1.5.2.	Long-term prepayments made	3 303	-	3 303	2 415
C.II.2.	**Short-term receivables**	**348 720**	**430**	**348 290**	**182 375**
C.II.2.1.	Trade receivables	343 383	430	342 953	175 592
C.II.2.2.	Receivables - controlled or controlling entity	770	-	770	3 183
C.II.2.4.	Receivables - other	4 567	-	4 567	3 600
C.II.2.4.3.	State - tax receivables	13	-	13	12
C.II.2.4.4.	Short-term prepayments made	3 705	-	3 705	3 514
C.II.2.4.6.	Sundry receivables	849	-	849	74
C.IV.	**Cash**	**48 680**	**-**	**48 680**	**22 397**
C.IV.1.	Cash in hand	2 054	-	2 054	2 417
C.IV.2.	Cash at bank	46 626	-	46 626	19 980
D.	**Other assets**	**12 649**	**-**	**12 649**	**5 233**
D.1.	Deferred expenses	12 649	-	12 649	5 233

BALANCE SHEET
FOR THE YEAR ENDED 31 DECEMBER 2017

(CZK'000)

As of 31 December		2017	2016
TOTAL LIABILITIES & EQUITY		**697 484**	**404 044**
A.	**Equity**	**65 920**	**(157 394)**
A.I.	**Share capital**	**2 334**	**2 334**
A.I.1.	Share capital	2 334	2 334
A.II.	**Share premium and capital funds**	**396 149**	**145 988**
A.II.1.	Share premium	6 680	6 680
A.II.2.	Capital funds	**389 469**	**139 308**
A.II.2.1.	Other capital funds	389 469	139 308
A.IV.	**Retained earnings (+/-)**	**(305 715)**	**(272 988)**
A.IV.1.	Accumulated profits brought forward	-	-
A.IV.2.	Accumulated losses brought forward (-)	(305 715)	(272 988)
A.IV.3.	Other profit or loss from prior years (+/-)	-	-
A.V.	**Profit or loss for the current period (+/-)**	**(26 848)**	**(32 728)**
A.VI.	Profit share prepayments declared (-)	-	-
B.+C.	**Liabilities**	**629 696**	**560 527**
B.	**Reserves**	**3 069**	**2 040**
B.IV.	Other reserves	3 069	2 040
C.	**Payables**	**626 627**	**558 487**
C.I.	**Long-term payables**	**310 000**	**350 833**
C.I.1.	Bonds issued	**230 000**	**80 000**
C.I.1.1.	Convertible bonds	-	-
C.I.1.2.	Other bonds	230 000	80 000
C.I.2.	Payables to credit institutions	80 000	80 000
C.I.4.	Trade payables	-	118
C.I.9.	Payables - other	-	**190 715**
C.I.9.1.	Payables to partners	-	190 715
C.II.	**Short-term payables**	**316 627**	**207 654**
C.II.2.	Payables to credit institutions	23 447	-
C.II.3.	Short-term prepayments received	3 944	3 454
C.II.4.	Trade payables	237 089	171 711
C.II.6.	Payables - controlled or controlling entity	185	185
C.II.8.	Other payables	**51 962**	**32 304**
C.II.8.3.	Payables to employees	10 713	7 331
C.II.8.4.	Social security and health insurance payables	5 240	3 982
C.II.8.5.	State - tax payables and subsidies	7 601	14 045
C.II.8.6.	Estimated payables	12 680	5 339
C.II.8.7.	Sundry payables	15 728	1 607
D.	**Other liabilities**	**1 868**	**911**
D.1.	Accrued expenses	1 868	911

PROFIT AND LOSS STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2017

(CZK '000)

For the year ended 31 December		2017	2016
I.	Sales of products and services	132 575	90 563
II.	Sales of goods	943 184	695 710
A.	Purchased consumables and services	**871 942**	**663 765**
A.1.	Costs of goods sold	545 258	401 463
A.2.	Consumed material and energy	19 369	15 140
A.3.	Services	307 315	247 162
D.	Staff costs	**166 251**	**112 634**
D.1.	Payroll costs	125 920	84 908
D.2.	Social security and health insurance costs and other charges	**40 331**	**27 726**
D.2.1.	Social security and health insurance costs	38 416	25 944
D.2.2.	Other charges	1 915	1 782
E.	Adjustments to values in operating activities	**10 537**	**9 523**
E.1.	Adjustments to values of intangible and tangible fixed assets	**12 206**	**7 262**
E.1.1.	Adjustments to values of intangible and tangible fixed assets - permanent	12 367	7 256
E.1.2.	Adjustments to values of intangible and tangible fixed assets - temporary	(161)	6
E.2.	Adjustments to values of inventories	(1 669)	2 261
E.3.	Adjustments to values of receivables	-	-
III.	Other operating income	**23 656**	**17 588**
III.1.	Sales of fixed assets	-	1 152
III.3.	Sundry operating income	23 656	16 436
F.	Other operating expenses	**34 275**	**22 252**
F.1.	Net book value of sold fixed assets	128	1 152
F.2.	Net book value of sold material	-	-
F.3.	Taxes and charges	83	24
F.4.	Reserves relating to operating activities and complex deferred expenses	1 029	(4 069)
F.5.	Sundry operating expenses	33 035	25 145
*	**Operating profit or loss (+/-)**	**16 410**	**(4 313)**
VI.	Interest income and similar income	**1**	**2**
VI.2.	Other interest income and similar income	1	2
J.	Interest expenses and similar expenses	**20 720**	**18 806**
J.1.	Interest expenses and similar expenses - controlled or controlling entity	7 174	12 896
J.2.	Other interest expenses and similar expenses	13 546	5 910
VII.	Other financial income	11 782	2 622
K.	Other financial expenses	41 120	12 233
*	**Financial profit or loss (+/-)**	**(50 057)**	**(28 415)**
**	**Profit or loss before tax (+/-)**	**(33 647)**	**(32 728)**
L.	Income tax	**(6 779)**	**-**
L.1.	Due income tax	-	-
L.2.	Deferred income tax (+/-)	(6 799)	-
**	**Profit or loss net of tax (+/-)**	**(26 848)**	**(32 728)**
M.	Transfer of share of profit or loss to partners (+/-)	**-**	**-**
***	**Profit or loss for the current period (+/-)**	**(26 848)**	**(32 728)**
*	Net turnover for the current period	**1 111 198**	**806 485**

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

(CZK '000)

	Share capital	Capital funds	Other profit or loss from prior years	Accumulated profits brought forward	Accumulated losses brought forward	Profit or loss for the current period	TOTAL EQUITY
Balance at 31 December 2015	**2 334**	**145 988**	**(970)**	**-**	**(147 130)**	**(124 888)**	**(124 666)**
Distribution of profit or loss	-	-	970	-	(125 858)	124 888	-
Increase in other capital funds	-	-	-	-	-	-	-
Profit shares paid	-	-	-	-	-	-	-
Profit share prepayments declared	-	-	-	-	-	-	-
Payments from capital funds	-	-	-	-	-	-	-
Profit or loss for the current period	-	-	-	-	-	(32 728)	(32 728)
Balance at 31 December 2016	**2 334**	**145 988**	**-**	**-**	**(272 988)**	**(32 728)**	**(157 394)**
Distribution of profit or loss	-	-	-	-	(32 727)	32 728	1
Increase in other capital funds	-	250 161	-	-	-	-	250 161
Profit shares paid	-	-	-	-	-	-	-
Profit share prepayments declared	-	-	-	-	-	-	-
Payments from capital funds	-	-	-	-	-	-	-
Profit or loss for the current period	-	-	-	-	-	(26 848)	(26 848)
Balance at 31 December 2017	**2 334**	**396 149**	**-**	**-**	**(305 715)**	**(26 848)**	**65 920**

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2017

(CZK '000)

For the year ended 31 December		2017	2016
P.	**Opening balance of cash and cash equivalents**	**22 397**	**25 259**
	Cash flows from ordinary activities (operating activities)		
Z.	Profit or loss before tax	(33 647)	(32 728)
A.1.	Adjustments for non-cash transactions	32 413	21 823
A.1.1.	Depreciation of fixed assets	12 367	7 256
A.1.2.	Change in provisions and reserves	(801)	(1 802)
A.1.3.	Profit/(loss) on the sale of fixed assets	128	-
A.1.4.	Revenues from profit shares	-	-
A.1.5.	Interest expense and interest income	20 719	18 804
A.1.6.	Adjustments for other non-cash transactions	4 808	(2 435)
A.*	**Net operating cash flow before changes in working capital**	**3 574**	**(10 905)**
A.2.	Change in working capital	(58 167)	(113 783)
A.2.1.	Change in operating receivables and other assets	(70 300)	(172 131)
A.2.2.	Change in operating payables and other liabilities	61 681	69 063
A.2.3.	Change in inventories	(49 548)	(10 715)
A.2.4.	Change in current financial assets	-	-
A.**	**Net cash flow from operations before tax**	**(54 593)**	**(124 688)**
A.3.	Interest paid	(15 737)	(4 292)
A.4.	Interest received	1	2
A.5.	Income tax paid from ordinary operations	-	-
A.6.	Received profit shares	-	-
A.***	**Net operating cash flows**	**(70 329)**	**(128 978)**
	Cash flows from investing activities		
B.1.	Fixed assets expenditures	(32 245)	(18 141)
B.2.	Proceeds from fixed assets sold	-	1 152
B.3.	Loans and borrowings to related parties	(103 919)	-
B.***	**Net investment cash flows**	**(136 164)**	**(16 989)**
	Cash flow from financial activities		
C.1.	Change in payables from financing	173 330	143 105
C.2.	Impact of changes in equity	59 446	-
C.2.1.	Cash increase in share capital	-	-
C.2.2.	Capital payments to partners	-	-
C.2.3.	Other cash contributions made by partners	59 446	-
C.2.4.	Settlement of loss by partners	-	-
C.2.5.	Payments from capital funds	-	-
C.2.6.	Profit shares paid	-	-
C.***	**Net financial cash flows**	**232 776**	**143 105**
F.	**Net increase or decrease in cash and cash equivalents**	**26 283**	**(2 862)**
R.	**Closing balance of cash and cash equivalents**	**48 680**	**22 397**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

Name of the Company:	ZOOT a.s.
Registered Office:	Zubatého 295/5, Smíchov, 150 00 Praha 5
Legal Status:	Joint Stock Company
Corporate ID:	28206592

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1. GENERAL INFORMATION

1.1. INCORPORATION AND DESCRIPTION OF THE BUSINESS

ZOOT a.s. (hereinafter the "Company") was formed by a Founder's Deed as a joint stock company on 3 December 2007 and was incorporated following its registration in the Register of Companies maintained by the Court in Prague on 10 December 2007.

The principal business activities of the Company include an on-line and mail-order retail service.

The following table shows individuals and legal entities with an equity interest greater than 20 percent and the amount of their equity interest:

Shareholder	Ownership percentage
ZOOT B.V. Reg. No. 565 39 932	100
Total	**100 %**

1.2. YEAR-ON-YEAR CHANGES AND AMENDMENTS TO THE REGISTER OF COMPANIES

On 22 March 2017 Luděk Palata was registered as a new Supervisory Board member in the Register of Companies. The members of the Supervisory Board increased to 4.

1.3. BOARD OF DIRECTORS AND SUPERVISORY BOARD AT THE BALANCE SHEET DATE

	Position	Name
Board of Directors	**Chairman**	**Ladislav Trpák**
	Vice-chairman	Petr Ladžov
	Member	Hana Matuštíková
Supervisory Board	**Chairman**	**Oldřich Bajer**
	Member	Kamila Říhová
	Member	Jiří Beneš
	Member	Luděk Palata

1.4. GROUP IDENTIFICATION

ZOOT a.s. is fully owned by the Dutch company ZOOT B.V. (hereinafter the "Parent Company" or "ZOOT BV").

Zoot a.s. holds an equity investment in BOREM s.r.o. This company is not engaged in any business activity. Therefore, on the grounds of immateriality, Zoot a.s. does not prepare consolidated financial statements.

The Company is part of the ZOOT BV Group (hereinafter the "ZOOT Group") based in Strawinskylaan 937, 1077XX Amsterdam, The Netherlands. The ZOOT Group voluntarily prepared consolidated financial statements for 2016 and will prepare obligatory consolidated financial statements for 2017. The consolidated financial statements are available at the registered address of the Parent Company.

2. ACCOUNTING PRINCIPLES AND POLICIES

The Company's accounting books and records are maintained and the financial statements were prepared in accordance with the Accounting Act 563/1991 Coll., as amended; the Regulation 500/2002 Coll. which provides implementation guidance on certain provisions of the Accounting Act for reporting entities that are businesses maintaining double-entry accounting records, as amended; and the Czech Accounting Standards for Businesses, as amended. In 2017, the Company issued regulated bonds on the Prague Stock Exchange and as a result is obliged to adopt and report under the International Financial Reporting Standards ("IFRS") as of the subsequent reporting period at the latest, i.e. as of and for the year ended 31 December 2018. Therefore, these are the last Company financial statements that are reported under Czech Accounting Standards.

The accounting records are maintained in compliance with general accounting principles, specifically the historical cost valuation basis (unless stated otherwise), the accruals principle, the prudence concept and the going concern assumption.

The Company's financial statements have been prepared as of the balance sheet date 31 December 2017 and for the year ended 31 December 2017.

These financial statements are presented in thousands of Czech crowns (CZK '000), unless stated otherwise.

2.1. TANGIBLE FIXED ASSETS

Tangible fixed assets include land, structures and tangible assets with an estimated useful life greater than one year and an acquisition cost greater than CZK 40 thousand on an individual basis.

Purchased tangible fixed assets are stated at cost less accumulated depreciation and any recognised impairment losses.

The cost of fixed asset improvements exceeding CZK 40 thousand for the taxation period increases the acquisition cost of the related tangible fixed asset.

Depreciation is charged so as to write off the cost of tangible fixed assets, other than land and assets under construction, over their estimated useful lives, using the straight line method, on the following basis:

Type of assets	Depreciation method	Number of years
Try & Buy stores	straight line	5
Buildings – technical improvements	straight line	3-10
Individual tangible movable assets	straight line	3-10

Technical improvements on tangible fixed assets are depreciated on a straight line basis over the estimated useful life.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the net book value of the asset at the sale date, and is recognised through the profit and loss account.

Provisioning
Provisions were made against obsolete tangible fixed assets based on the results of inventory taking, to the extent that the carrying value temporarily does not match the actual balance. The provision is released on a straight-line basis over the estimated useful life.

2.2. INTANGIBLE FIXED ASSETS

Intangible fixed assets primarily include intangible assets arising from research and development, valuable rights and software with an estimated useful life greater than one year and an acquisition cost greater than CZK 60 thousand on an individual basis.

Purchased intangible fixed assets are stated at cost less accumulated amortization and any recognized impairment losses.

The cost of intangible fixed asset improvements for the taxation period increases the acquisition cost of the related intangible fixed asset.

Amortization of intangible fixed assets is recorded on a straight line basis over their estimated useful lives as follows:

Type of assets	Amortization method	Number of years
Software	straight line	3-7
Valuable rights	straight line	10

Patents and trademarks are measured initially at purchase cost and are amortized on a straight line basis over their estimated useful lives.

2.3. NON-CURRENT FINANCIAL ASSETS

Non-current financial assets consist of equity investments in subsidiaries with a significant influence intent to hold exceeding one year.

At the date of acquisition of the equity investments, the Company categorizes these non-current financial assets based on their underlying characteristics as equity investments - subsidiary (controlled entity).

At the balance sheet date, the Company records equity investments at acquisition cost less any impairment provisions.

2.4. INVENTORY

Purchased inventory is valued at acquisition costs. Acquisition costs include the purchase cost and indirect acquisition costs such as custom fees, freight costs and storage fees during transportation, commissions, insurance charges and discounts.

Inventory is issued out of stock using the FIFO (first in, first out) method.

Provisioning
Provisions are made based on the aging of goods in stock, reflecting the probability of their possible sale and the level of damage to the goods. For goods which have been in stock in excess of three years, the provision amounts to 100% of their acquisition cost. Similarly, for goods assessed as being destroyed, the provision amounts to 100% of their acquisition cost. For goods assessed as being severely damaged, the provision amounts to 50% of their acquisition cost as this amount corresponds to the price for which such goods can be sold in the ZOOTLet sale actions which are regularly organized by the Company. The total provisions for inventory amount to approximately 0.9% of the inventory value.

2.5. RECEIVABLES

Upon origination, receivables are stated at their nominal value as subsequently reduced by appropriate provisions for doubtful and bad amounts. Receivables acquired for consideration or through an investment are stated at cost less provisions for doubtful and bad amounts.

Provisioning
Provisions are made for receivables from debtors in liquidation in the amount of 100% of the nominal value of the receivable. The company does not create any provision to overdue intercompany receivables.

2.6. PAYABLES

Payables are stated at their nominal value.

2.7. LOANS

Loans are stated at their nominal value. The portion of long-term loans maturing within one year from the balance sheet date are included in the short-term loans.

2.8. RESERVES

Reserves are intended to cover future risks and expenditure, the nature of which are clearly defined and which are likely to be incurred, but are uncertain as to the amount or the date on which they will arise. Other reserves include the Company's payables arising from outstanding vacation days of employees and the asset retirement obligation for Try & Buy stores.

2.9. FOREIGN CURRENCY TRANSLATION

Transactions denominated in foreign currencies during the year are translated using the exchange rate of the Czech National Bank prevailing on the date of the transaction.

On the balance sheet date, the relevant assets and liabilities are translated at the Czech National Bank's exchange rate prevailing as of that date.

2.10. TAXATION

Depreciation of Fixed Assets for Tax Purposes
Depreciation of fixed assets is calculated using the straight line principle for tax purposes.

Current Tax Payable
The management of the Company has recognized a tax payable and a tax charge based on its tax calculation which follows from its understanding of the interpretation of Czech tax legislation valid at the date of the financial statement, and believes that the amount of tax is correct and in compliance with the effective Czech tax regulations. Since various interpretations exist of tax laws and regulations by third parties, including state administrative bodies, the income tax payable reported in the Company's financial statements may change based on the ultimate opinion of the tax authorities.

Deferred Tax
Deferred tax is accounted for using the balance sheet liability method.

The carrying amount of deferred tax assets is reviewed on the balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is charged or credited to the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the related deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset and reported on an aggregate net basis in the balance sheet, except when partial tax assets cannot be offset against partial tax liabilities.

2.11. IMPAIRMENT

At each balance sheet date, the Company reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the greater of the net selling price and the value in use. In assessing the value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount.

2.12. GOVERNMENT GRANTS

Grants received to offset costs are recognized as other operating and financial income over the period necessary to match them with the related costs.

2.13. REVENUE RECOGNITION

Revenue is measured at the value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, value added tax and other sales related taxes.

Revenues from on-line retail sales are recognized at the date of delivery of the items to the customer by the carrier or their handover to the customer at the collection points.

Revenue from intercompany sales are recognized on the last day in the month on a sum lump basis.

2.14. USE OF ESTIMATES

The presentation of financial statements requires the management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the balance sheet date, and the reported amounts of revenues and expenses during the reporting period. The management of the Company has made these estimates and assumptions on the basis of all the relevant information available to it. Nevertheless, pursuant to the nature of estimates, the actual results and outcomes in the future may differ from these estimates.

2.15. CASH FLOW STATEMENT

The cash flow statement is prepared using the indirect method. Cash equivalents include current liquid assets which are easily convertible into cash in an amount agreed in advance and not expected to be subject to material fluctuations in value over time.

(CZK '000)

	31.12.2017	31.12.2016
Cash in hand and cash in transit	2 054	2 417
Cash at bank	46 626	19 980
Total cash and cash equivalents	**48 680**	**22 397**

Cash flows from operating, investment and financial activities presented in the cash flow statement are not offset.

3. ADDITIONAL INFORMATION

3.1. INTANGIBLE FIXED ASSETS (INTANGIBLE FA))

Cost

(CZK '000)

	Opening balance	Additions	Disposals	Transfers	Closing balance
Valuable rights	134	-	-	-	134
Software	19 821	-	-	19 146	38 967
Intangible FA under construction	6 746	16 486	(215)	(19 146)	3 871
Total in 2017	**26 701**	**16 486**	**(215)**	**-**	**42 972**
Total in 2016	**15 575**	**11 126**	**-**	**-**	**26 701**

In 2017, the additions to Intangible Fixed Assets were CZK 16.5 million. The investment projects realized by the Company were primarily internally developed and capitalized costs with respect to the new ERP system and related components in the amount of CZK 11.3 million.

Provisions and Accumulated Amortization

(CZK '000)

	Opening balance	Additions	Disposals	Transfers	Closing balance	Provi-sions	Net book value
Valuable rights	26	13	-	-	39	-	95
Software	11 878	6 764	-	-	18 642	-	20 325
Intangible FA under construction	-	-	-	-	-	-	3 871
Total in 2017	**11 904**	**6 777**	**-**	**-**	**18 681**	**-**	**24 291**
Total in 2016	**7 751**	**4 153**	**-**	**-**	**11 904**	**-**	**14 797**

3.2. TANGIBLE FIXED ASSETS (TANGIBLE FA)

Cost

(CZK '000)

	Opening balance	Additions	Disposals	Transfers	Closing balance
Buildings	673	-	-	987	1 660
Individual tangible movable assets and their sets	21 753	-	(1 029)	34 190	54 914
Tangible FA under construction	399	36 110	(17)	(35 177)	1 315
Total in 2017	**22 825**	**36 110**	**(1 046)**	**-**	**57 889**
Total in 2016	**17 041**	**7 123**	**(1 339)**	**-**	**22 825**

In 2017, the additions to Tangible Fixed Assets were CZK 36.1 million. The investment projects realized by the Company were primarily a new roller conveyor in the warehouse in the amount of CZK 20.7 million, the improvement or new Try & Buy stores in the amount of CZK 9.9 million and the other fixed assets in the amount of CZK 5.5 million.

Provisions and Accumulated Amortization

(CZK '000)

	Opening balance	Additions	Disposals	Transfers	Closing balance	Provi-sions	Net book value
Buildings	249	217	-	-	466	-	1 194
Individual tangible movable assets and their sets	4 179	5 758	(988)	-	8 949	-	45 965
Tangible FA under construction	307	-	-	-	307	(161)	1 169
Total in 2017	**4 735**	**5 975**	**(988)**	**-**	**9 722**	**(161)**	**48 328**
Total in 2016	**1 404**	**3 391**	**(369)**	**-**	**4 426**	**307**	**18 092**

3.3. OPERATING LEASES

The Company leases four cars and one high pressure washer in total. The operating leases are immaterial.

3.4. NON-CURRENT FINANCIAL ASSETS

Cost

(CZK '000)

	Cost							Fair value
	Balance at 31 Dec 2015	Additions	Disposals	Balance at 31 Dec 2016	Addi-tions	Disposals	Revaluation at 31 Dec 2017	Balance at 31 Dec 2017
Equity investments - subsidiary (controlled entity)	200	-	-	200	-	-	-	200
Total	**200**	**-**	**-**	**200**	**-**	**-**	**-**	**200**

Equity Investments – Controlled Entity

2017

(CZK '000)

Name of the entity	Registered office	Ownership percentage	Equity*	Profit or loss*	Net book value
Borem s.r.o.	Praha 5, Zubatého 295/5	100%	185	-	200
Total			**185**	**-**	**200**

* Based on the unaudited financial statements for the year ended 31 December 2017

2016

(CZK '000)

Name of the entity	Registered office	Ownership percentage	Equity*	Profit or loss*	Net book value
Borem s.r.o.	Praha 5, Zubatého 295/5	100%	185	-	200
Total			**185**	**-**	**200**

* Based on the unaudited financial statements for the year ended 31 December 2016

3.5. INVENTORY

The balance of inventory was CZK 204.9 million as of 31 December 2017 and CZK 158.5 million as of 31 December 2016. The inventory value saw a year on year increase of 29%.

The Company recorded a provision against inventory of CZK 1.8 million as of 31 December 2017 and CZK 3.5 million as of 31 December 2016 which represents a decrease of CZK 1.7 million.

The entire balance of Inventory has been pledged as a collateral for current loans as described in more detail in section 3.14. Bank loans.

3.6. LONG-TERM RECEIVABLES

Long-term receivables include receivables that have a maturity greater than one year at the balance sheet date and a deferred tax asset. Long-term receivables are primarily comprised of deposits paid for rental.

3.7. SHORT-TERM RECEIVABLES

Aging of Trade Receivables

(CZK '000)

			Past due date						
Year	**Category**	**Before due date**	**0 - 90 days**	**91 - 180 days**	**181 – 360 days**	**1 - 2 years**	**2 and more years**	**Total past due date**	**Total**
2017	Gross regular	473	476	112	-	443	-	1 031	**1 504**
	Gross intercompany	131 995	115 746	-	50 888	43 140	110	209 884	**341 879**
	Provisions	-	-	-	-	(430)	-	(430)	**(430)**
	Net	**132 468**	**116 222**	**112**	**50 888**	**43 153**	**110**	**210 485**	**342 953**
2016	Gross regular	429	11 634	123	457	0	-	12 214	**12 643**
	Gross intercompany	144 882	341	8 609	9 286	261	-	18 497	**163 379**
	Provisions	-	(430)	-	-	-	-	(430)	**(430)**
	Net	**145 311**	**11 545**	**8732**	**9743**	**261**	**-**	**30 281**	**175 592**

Receivables past their due dates amount to CZK 216.1 million and CZK 30.7 million as of 31 December 2017 and 31 December 2016 respectively. The increase in receivables resulted from the growth of the Company, however, the majority of receivables are intercompany receivables for the sale of goods and provision of services to fellow subsidiaries (refer to *Note 3.23 Related party transactions*).

A provision of CZK 430 thousand was made for receivables from a company under insolvency proceedings (as of 31 December 2016: CZK 430 thousand).

The unusual trend of past due date categories is impacted by a change in intercompany maturity terms which increased from 14 days to 100 days in June 2017.

Provisioning Movements

(CZK '000)

	2017	2016
Opening balance at 1 January	430	430
Provisioning charge	-	-
Release	-	-
Closing balance at 31 December	**430**	**430**

The entire balance of short-term receivables has been pledged as a collateral for current loans as described in more detail in section 3.14 Bank loans.

3.8. DEFERRED EXPENSES AND ACCRUED INCOME

The Company incurred expenses relating to upcoming periods in the amount of CZK 12.6 million as of 31 December 2017 and CZK 5.2 million as of 31 December 2016 which represents an increase of 142% year on year. The deferred expenses primarily consist of packaging materials. The increase was primarily caused by administrator fee incurred for the 2017 bonds issuance which is recognized over a four year period.

3.9. EQUITY

Changes in equity are reported in a separate statement. The financial result incurred in the reporting period is likely to be allocated to accumulated losses brought forward.

The Company increased share premium by a voluntarily payment from the Parent Company in the amount of CZK 58.1 million in March 2017, and a loan capitalization by the Parent Company in the amount of CZK 192.1 million in June 2017.

3.10. RESERVES

(CZK '000)

	Balance at 31 December 2017	Balance at 31 December 2016
Untaken vacation	1 854	2 040
Assets retirement obligation	1 215	-
Reserves total	**3 069**	**2 040**

	Untaken vacation	Assets retirement obligation
Balance at 31 December 2015	**6 109**	**-**
Charge for reserves	2 040	-
Use of reserves	(6 109)	-
Balance at 31 December 2016	**2 040**	**-**
Charge for reserves	1 854	1 215
Use of reserves	(2 040)	-
Balance at 31 December 2017	**1 854**	**1 215**

3.11. LONG-TERM PAYABLES

Long-term payables include payables that have a maturity greater than one year at the balance sheet date.

On 9 September 2016, the Company issued 80 thousand bonds with a nominal value of CZK 1,000 per bond and a fixed interest rate of 6.5% p.a., paid twice a year on 9 March and 9 September. The bonds have maturity on 9 September 2020 and are not exchangeable.

On 1 September 2017, the Company issued 150 thousand bonds with a nominal value of CZK 1,000 per bond and a fixed interest rate of 6.5% p.a., paid twice a year on 1 March and 1 September. The bonds have maturity on 1 September 2021 and are publicly tradable on the Prague Stock Exchange.

3.12. SHORT-TERM PAYABLES

Payables past their due dates amounted to CZK 19.3 million and CZK 24.6 million as of 31 December 2017 and 2016 respectively. The short-term payables primarily consist of payables for agency employees, marketing services and goods delivery. The vast majority of past due date payables were settled in January 2018.

In October 2016, the Company started to use the factoring services of Invoice Financing s.r.o. thanks to which the original due date of the assigned supplier's invoice increases to 120 days from the assigned date. The interest for the factoring services is in the range of 8.4 – 11.4 % p.a. Based on the factoring service agreement, certain of the Company's suppliers may reassign their invoices to Invoice Financing s.r.o. for immediate payment and the Company pays the reassigned invoices with a longer maturity directly to Invoice Financing s.r.o..

3.13. SHORT-TERM INTERCOMPANY PAYABLES

Short-term intercompany payables consist of payables to the subsidiary BOREM in the amount of CZK 185 thousand as of 31 December 2017 and 31 December 2016 respectively.

3.14. BANK LOANS

Long-Term Bank Loans

(CZK '000)

Bank/creditor	Currency	Balance at 31 Dec 2017	Balance at 31 Dec 2016	Interest rate
Raiffeisenbank a.s.	CZK	80 000	80 000	1 M PRIBOR for the given interest period + 4.55% p.a.
Total		**80 000**	**80 000**	

The portions of the above stated loans maturing within one year from the balance sheet date are reported as part of the short-term bank loans on the face of the balance sheet.

Raiffeisenbank a.s. loan collateral:

1. Pledged legal title to the trade mark based on a collateral agreement for the trade mark;
2. Pledged legal title to moveable assets in favour of the Bank based on a collateral agreement for movable assets;
3. Pledged legal title to receivables from the Client's current accounts;
4. Pledged legal title to receivables from deposits;
5. Pledged legal title to inventory;
6. Endorsed blank bill of exchange;
7. Blocking of property insurance proceeds;
8. Blocking of immovable assets (inventory) insurance proceeds; and

9. Pledge of trade receivables.

Short-Term Bank Loans and Financial Borrowings

(CZK '000)

Bank/creditor	Currency	Balance at 31 Dec 2017	Balance at 31 Dec 2016	Interest rate
Citibank Europe plc	CZK	23 447	-	4,5% + PriborCiti
Raiffeisenbank a.s.	CZK	-	-	3,55% + Pribor
Total		**23 447**	**-**	

Citibank Europe plc. loan collateral:

1. Finance guarantee issued by ZOOT SRL based on the guarantee agreement;
2. Finance guarantee issued by ZOOT SK s.r.o. based on the guarantee agreement;
3. Pledged legal title to moveable assets in favour of the Bank based on a collateral agreement for movable assets based on terms in the inter-credential agreement;
4. Pledged legal title to receivables from the Client's current accounts;
5. Pledged legal title to receivables from ZOOT SRL and ZOOT SK s.r.o.;
6. Pledged legal title to inventory; and
7. Blocking of immovable assets (inventory) insurance proceeds.

3.15. ACCRUED EXPENSES AND DEFERRED INCOME

Accrued Expenses

The Company accrued expenses in the amount of CZK 12.7 million as of 31 December 2017 and CZK 5.3 million as of 31 December 2016, which represents an increase of 137% year on year. The accrued expenses primarily consist of unpaid employee bonuses and uncharged services for T&B stores and the warehouse. The year on year increase was primarily caused by non-charged services (energy, water, heating) related to the new 2017 T&B stores and an increase in employee bonuses which will be paid out in 2018.

Deferred Income

The Company incurred income of upcoming periods in the amount of CZK 1.7 million as of 31 December 2017 and CZK 0.9 million as of 31 December 2016, which represents an increase of 105% year on year. The deferred income primarily consists of free rent period benefits for some T&B stores and the warehouse at Říčany, recognized over the rent period. The year on year increase was primarily caused by free rent benefits from the new 2017 T&B stores and an increase of warehouse space resulting in additional free rent benefits.

3.16. DEFERRED INCOME TAXATION

(CZK '000)

Deferred tax arising from	Balance at 31 Dec 2017	Balance at 31 Dec 2016
Inventory	352	669
Reserves	584	388
Accumulated depreciation and amortisation of fixed assets	1 638	732
Tax losses carried forward	41 854	42 592
Total asset/(liability)	**44 428**	**44 381**

(CZK '000)

	Balance at 31 Dec 2017	Balance at 31 Dec 2016
Recognised asset	6 799	-
Unrecognised asset	37 629	44 381
Total asset/(liability)	**44 428**	**44 381**

The asset referred to above was accounted for only to the extent to which it can be anticipated to be recovered on the grounds of prudence, therefore the Company has not recorded any deferred tax income as of 31 December 2016 as there was uncertainty over whether any benefits would be recovered in the upcoming years. As of 31 December 2017, the Company recorded part of the deferred tax income, as it is anticipated that the historical tax losses and other tax components will be recovered against estimated future tax profits. The Company decided to recognize only 2012 net operating tax losses, which will expire next year, and which are expected to be utilized against next year's taxable income.

Analysis of Movements

(CZK '000)

1 January 2017	**-**
Recognition of an asset not recognised previously	6 846
Current changes charged to the profit and loss account	(47)
Total charges against the profit and loss account	**6 799**
Change of method	-
Current changes recognised in equity	-
Total recognised in equity	**-**
31 December 2017	**6 799**

3.17. INCOME FROM ORDINARY ACTIVITIES

(CZK '000)

	Year ended 31 December 2017			Year ended 31 December 2016		
	In-country	Cross-border	Total 2017	In-country	Cross-border	Total 2016
Sales of goods	758 937	184 247	943 184	575 113	120 597	695 710
Total sales of goods	**758 937**	**184 247**	**943 184**	**575 113**	**120 597**	**695 710**
Services	15 495	117 080	132 575	5 002	85 561	90 563
Total sales of services	**15 495**	**117 080**	**132 575**	**5 002**	**85 561**	**90 563**
Total sales of goods and services	**774 432**	**301 327**	**1 075 759**	**580 115**	**206 158**	**786 273**

Sales of services consist primarily of intercompany recharges based on a transfer pricing study, marketing services and consignment goods sales. The consignment goods sales are recognized on a net revenue basis principle reduced for purchased goods. The Company recognized consignment goods sales in the amount of CZK 12.7 million and CZK 65 thousand in 2017 and 2016 respectively. The cross-border sales are primarily related to our Slovak and Romanian affiliated distributors.

3.18. CONSUMED PURCHASES

(CZK '000)

	Year ended 31 Dec 2017	Year ended 31 Dec 2016
Consumed T&B and warehouse material	13 747	11 325
Consumed office material	3 281	2 326
Low value fixed assets up to CZK 40 thousands	2 341	1 489
Total consumed purchases	**19 369**	**15 140**

3.19. SERVICES

(CZK '000)

	Year ended 31 Dec 2017	Year ended 31 Dec 2016
Marketing	116 513	114 235
Warehouse	105 726	74 155
IT	29 056	14 900
Admin	25 771	24 511
Try & Buy	25 234	16 013
Other services	5 015	3 348
Total	**307 315**	**247 162**

The Company used new methodology based on the functional cost centres for the split of services. The comparable amounts for 2016 were recalculated using the new method.

3.20. EMPLOYEES, MANAGEMENT AND STATUTORY BODIES

The average recalculated headcount for the years ended 31 December 2017 and 31 December 2016 is as follows:

(CZK '000)

	2017		2016	
	Number	Total payroll costs	Number	Total payroll costs
Staff	416	122 223	275	80 935
Managers	4	3 697	4	3 973
Total	**420**	**125 920**	**279**	**84 908**

The number of employees is based on the average recalculated headcount for the reported period. The comparable staff number is recalculated by the same method.

The total remuneration for Board of Directors and Supervisory Board members was CZK 2.3 million for 2017 and CZK 3.9 million for 2016.

3.21. OTHER OPERATING INCOME AND EXPENSES

(CZK '000)

Grants	Year ended 31 Dec 2017	Year ended 31 Dec 2016
Operating grants received	30	96
Investment grants received	-	-
Total	**30**	**96**

The operating grants received were in relation to new employee workplace in 2017 and 2016, respectively.

(CZK '000)

Other Operating Income	Year ended 31 Dec 2017	Year ended 31 Dec 2016
Replacement of stock items, gross income	13 258	5 186
Inventory surpluses and compensation for deficits	3 505	7 660
Turnover bonuses and discounts	3 254	1 058
Recoveries of receivables written off and transferred	2 540	1 676
Sundry operating income	1 099	856
Total	**23 656**	**16 436**

(CZK '000)

Other Operating Expenses	Year ended 31 Dec 2017	Year ended 31 Dec 2016
Replacement of stock items, gross expense	12 966	5 542
Write-off of goods – damaged goods and marketing	10 162	2 645
Write-off of receivables and transferred receivables	3 848	2 436
Sundry operating expenses	3 764	2 248
Deficits and damage relating to operating activities	1 690	10 411
Gifts	291	1 411
Other penalties and fines	195	316
Contractual penalties and default interest	119	136
Total	**33 035**	**25 145**

3.22. INTEREST INCOME AND SIMILAR INCOME

The Company recorded interest income and similar income of CZK 1 thousand and CZK 2 thousand in the reported periods of 2017 and 2016 respectively.

3.23. INTEREST EXPENSE AND SIMILAR EXPENSE

(CZK '000)

	Year ended 31 Dec 2017	Year ended 31 Dec 2016
Interest expense from bonds	8 566	1 618
Interest expense from Parent Company loans	7 174	12 896
Interest expense from revolving loans	4 472	4 033
Interest expense from loans on Tangible FA	485	48
Interest expense from current bank accounts	23	211
Total	**20 720**	**18 806**

3.24. OTHER FINANCIAL INCOME

(CZK '000)

	Year ended 31 Dec 2017	Year ended 31 Dec 2016
Foreign exchange rate gains	11 782	2 622
Total	**11 782**	**2 622**

3.25. OTHER FINANCIAL EXPENSES

(CZK '000)

	Year ended 31 Dec 2017	Year ended 31 Dec 2016
Foreign exchange rate losses	26 455	3 159
Banking fees	14 652	9 069
Deficits and damage of financial assets	13	5
Total	**41 120**	**12 233**

The banking fees consist of transactional fees, letter of credit fees, bank guarantee fees and administrator fees for issued bonds in June 2017.

3.26. RELATED PARTY TRANSACTIONS

Trade Receivables from Related Parties

(CZK '000)

Entity	Relation to the Company	Total at 31 Dec 2017	Total at 31 Dec 2016
Zoot B.V.	Parent	770	3 182
Zoot SK s.r.o.	Fellow subsidiary	201 779	85 773
Zoot SRL (Romania)	Fellow subsidiary	139 962	77 487
Total		**342 511**	**166 442**

Payables to Related Parties

(CZK '000)

Entity	Relation to the Company	Balance at 31 Dec 2017	Balance at 31 Dec 2016
Borem s.r.o.	Subsidiary	185	185
Zoot SK s.r.o.	Fellow subsidiary	225	84
Total		**410**	**269**

The payables to related parties are all classified as other short-term liabilities.

Income from Related Parties

(CZK '000)

Entity	Relation to the Company	Year ended 31 Dec 2017	Year ended 31 Dec 2016
Zoot B.V.	Parent	1 333	3 063
Zoot SK s.r.o.	Fellow subsidiary	219 249	136 198
Zoot SRL (Romania)	Fellow subsidiary	86 741	66 312
Total		**307 323**	**205 573**

Expenses from Related Parties

(CZK '000)

Entity	Relation to the Company	Year ended 31 Dec 2017	Year ended 31 Dec 2016
Zoot SK s.r.o.	Fellow subsidiary	977	149
Total		**977**	**149**

3.27. TOTAL FEE TO THE STATUTORY AUDITOR/AUDIT COMPANY

The fee to the statutory auditor for the obligatory audit of the financial statements for the year ended 31 December 2017 amounted to CZK 679 thousand (CZK 224 thousand for the year ended 31 December 2016). The statutory auditor did not provide the Company with any services other than 2016 annual report translation to English in the amount of CZK 10 thousand.

3.28. OFF-BALANCE SHEET COMMITMENTS

Some of the Company's assets were pledged in favour of Raiffeisenbank a.s. and Citibank Europe plc due to the provided revolving and overdraft facility loans.

The Company has credit financing from Raiffeisenbank a.s. in the form of an overdraft loan facility in the amount of CZK 20 million and a combined line of a revolving loan, stand-by letters of credit and bank guarantees in the amount of CZK 145 million. In addition, the amount of the revolving loan is determined based on a lower value of 60% of the inventory value or CZK 100 million.

Raiffeisenbank a.s. issued a guarantee of CZK 1.9 million and also letters of credit of CZK 42.5 million.

The Company has credit financing from Citibank Europe plc, organizational branch, in the amount of CZK 50 million in the form of a combined line of a revolving plan, stand-by letters of credit and bank guarantees. The amount of the revolving loan is determined by a maximum amount of CZK 40 million.

Citibank Europe plc issued a guarantee of CZK 5.2 million and also letters of credit of CZK 18.8 million.

The credit financing is collateralised as follows:

- Pledge legal title to property from 30 July 2017 in favour of Raiffeisenbank a.s., as amended;
- Bill of exchange from 14 December 2016 between Petr Ladžov, Ladislav Trpák and Citibank Europe plc, organizational branch;
- Finance guarantee from 14 December 2016 issued by ZOOT SRL in favour of Citibank Europe plc, organizatioal branch;
- Finance guarantee from 14 December 2016 issued by ZOOT SK s.r.o. in favour of Citibank Europe plc, organizational branch;
- Pledged legal title to receivables from ZOOT SRL a ZOOT SK s.r.o. from 14 December 2016 in favour of Citibank Europe plc, organizational branch;
- Pledged legal title to receivables from the Company's current accounts from 14 December 2016 in favour of Citibank Europe plc, organizational branch;

- Bill of exchange from 30 July 2014 between ZOOT a.s. and Raiffeisenbank a.s. to the Contract for a non-binding overdraft loan;
- Pledged legal title to deposit receivables from 30 July 2014 in favour of Raiffeisenbank a.s., as amended;
- Pledged legal title to trade receivables from 30 July 2014 in favour of Raiffeisenbank a.s., as amended;
- Pledged legal title to inventory from 30 July 2014 in favour of Raiffeisenbank a.s., as amended; and
- Contract for the establishment of a pledge on trade marks, as amended.

The company also uses a virtual credit card issued by Citibank Europe plc, UK Branch in the amount of CZK 2.3 million as of 31 December 2017. The virtual credit card has a maximum limit of CZK 50 million and an interest free period of 60 to 90 days.

Legal Disputes

As of 31 December 2017, the Company was involved in no legal disputes, the outcome of which would have a material impact on the Company.

Environmental Liabilities

As of 31 December 2017, there was no environmental audit of the Company. As a result, the Company's management cannot estimate contingent liabilities pertaining to damage caused by prior activities or liabilities related to the prevention of potential future damage.

Future Commitments

As of 31 December 2017, the Company does not have any material future investments or other commitments.

3.29. GOING CONCERN

During 2017, the total equity increased by CZK 223.3 million from CZK (157.4) million to CZK 65.9 million, mainly thanks to voluntary additional contributions outside the registered capital amounting to CZK 58.1 million and CZK 192.0 million provided by the Parent Company in March 2017 and June 2017 respectively. However, the equity decreased due to the current year loss of CZK 26.9 million. As a result, the Company reported accumulated losses of CZK 305.7 million as of 31 December 2017 which is primarily due to its quick expansion and fulfilment of strategic objectives. While the Company generated current year loss of CZK 26.9 million, the operating profit increased by CZK 20.7 million from CZK (4.3) million to CZK 16.4 million year on year and the EBITDA increased by CZK 25.9 million from CZK 2.9 million to CZK 28.8 million year on year.

The Company expects to maintain positive equity going forward, which should be achieved by fulfilment of its financial plan with positive EBITDA for 2018 and going forward. The main effort will be put into the overall operational profitability, or on variable cost optimization. Furthermore, the Company will continue to expand its unique Try & Buy concept in the capital and secondary cities of the Czech Republic as well as in Slovakia via its distributor. The Company also continues to strengthen its knowledge in Data and Performance marketing and to enhance its AI-driven technology in order to make it more effective and easily customizable by our clients.

The management is focused on its business strategy execution which is key for its future and going concern. In addition the management is reasonably confident that the Company will have sufficient funds to continue in its activities. As such, the financial statements for the year ended 31 December 2017 have been prepared assuming that the Company will continue to operate as a going concern.

3.30. POST BALANCE SHEET EVENTS

The following changes took place in the Off-Balance Sheet Commitment, specifically in the credit financing collateralisation:

- On 23 January 2018 the legal title to inventory was pledged in favour of Raiffeisenbank a.s. and Citibank Europe plc based on a collateral agreement; and
- On 23 January 2018 the immovable assets (inventory) insurance proceeds were blocked in favour of Raiffeisenbank a.s. and Citibank Europe plc based on a collateral agreement.

No other events have occurred subsequent to the balance sheet date that would have a material impact on the financial statements.

In Prague on 23 April 2018

....	....	....
Ladislav Trpák	Petr Ladžov	Hana Matuštíková

Deloitte.

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Registered by the Municipal Court
in Prague, Section C, File 24349
ID. No.: 49620592
Tax ID. No.: CZ49620592

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Zoot a.s.

Having its registered office at: Zubatého 295/5, Smíchov, 150 00 Praha 5

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of ZOOT a.s. (hereinafter also the "Company") prepared on the basis of accounting regulations applicable in the Czech Republic, which comprise the balance sheet as of 31 December 2017, and the profit and loss account, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of ZOOT a.s. as of 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with accounting regulations applicable in the Czech Republic.

Basis for Opinion

We conducted our audit in accordance with the Act on Auditors, Regulation (EU) No. 537/2014 of the European Parliament and the Council, and Auditing Standards of the Chamber of Auditors of the Czech Republic, which are International Standards on Auditing (ISAs), as amended by the related application guidelines. Our responsibilities under this law and regulation are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Act on Auditors and the Code of Ethics adopted by the Chamber of Auditors of the Czech Republic and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Risk:	Our response to the risk:
The Company has been reporting losses in the long-term (CZK 26,848 thousand for 2017, CZK 32,378 thousand for 2016). As of 31 December 2016, the Company reported negative equity of CZK (157,394) thousand which was increased by an additional payment to other capital funds of CZK 250,161 thousand in 2017. As a result, the equity balance as of 31 December 2017 is positive, amounting to CZK 65,920 thousand. Long-term losses and the need for new sources of financing are an indicator of the risk regarding the Company's ability to continue as a going concern, which may give rise to the existence of a material uncertainty. As a result, the assessment of the above matters, including the evaluation of the sufficiency of disclosures made in the notes to the financial statements in this respect, are considered a key audit matter.	Our audit procedures focused on addressing the risk also included the following: • Making an inquiry of the Company's management regarding internal procedures and the process of the 2018 plan preparation; • Assessing the evaluation of the ability to continue as a going concern performed by the Company's management; • Assessing the development of the Company's financial performance and financing for 2017 in comparison with the previous periods, specifically 2016 and the fulfilment of the 2017 plan; • Making a critical assessment of the reliability of the Company's plan for 2018; • Assessing the obligation attached to, and the maturity of, significant sources of the Company's financing; • Seeking the Company's management representation regarding the feasibility of the 2018 plan; • Obtaining the parent company's statement regarding the willingness to support the

	Company for at least the next 12 months; and • Assessing the adequacy and completeness of the disclosures made in Note 3.29 to the financial statements.

Other Information in the Annual Report

In compliance with Section 2(b) of the Act on Auditors, the other information comprises the information included in the Annual Report other than the financial statements and auditor's report thereon. The Board of Directors is responsible for the other information.

Our opinion on the financial statements does not cover the other information. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law or regulation, in particular, whether the other information complies with law or regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- The other information describing the facts that are also presented in the financial statements is, in all material respects, consistent with the financial statements; and
- The other information is prepared in compliance with applicable law or regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Company obtained in the audit, on whether the other information contains any material misstatement of fact. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement of fact.

Responsibilities of the Company's Board of Directors, Supervisory Board and Audit Committee for the Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of the financial statements in accordance with accounting regulations applicable in the Czech Republic and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board and the Audit Committee are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. 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 financial statements.

As part of an audit in accordance with the above law or regulation, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, 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 opinion. 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 in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of 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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors, the Supervisory Board and the Audit Committee 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 the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, the Supervisory Board and the Audit Committee, we determine those matters that were of most significance in the audit of the 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 or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In compliance with Article 10(2) of Regulation (EU) No. 537/2014 of the European Parliament and the Council, we provide the following information in our independent auditor's report, which is required in addition to the requirements of International Standards on Auditing:

<u>Appointment of the Auditor and the Period of Engagement</u>

We were appointed as the auditors of the Company by the General Meeting of Shareholders on 11 August 2017 and our uninterrupted engagement has lasted for 4 years.

<u>Consistence with the Additional Report to the Audit Committee</u>

We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 23 April 2018 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

<u>Provision of Non-audit Services</u>

We declare that no prohibited non-audit services referred to in Article 5 of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided. In addition, there are no other non-audit services which were provided by us to the Company and its controlled undertakings and which have not been disclosed in the financial statements.

In Prague on 23 April 2018

Audit firm:

Deloitte Audit s.r.o.
registration no. 079

Deloitte

Statutory auditor:

Martin Tesař
registration no. 2030

04

OTHER INFORMATION

BOND PERFORMANCE IN 2017

PRIMARY MARKET ACTIVITY

On 1 September 2017, the Company issued subordinated bonds in a total value of CZK 150 million with fixed 6.5% p.a. interest paid regularly at the end of a six month period. The bonds were issued for a period of 4 years with the due date of August 31, 2021. More information on the rights and obligations in relation to bond holding is available in the Bond prospectus, section C8.

SECONDARY MARKET ACTIVITY

In September 2017, the bonds were admitted for trading on the Prague Stock Exchange with no trading restriction, under ISIN CZ0003516890. Based on publicly available information provided by PSE, there has been a lack of liquidity for this bond issuance.

SELECTED BOND INFORMATION

First day of trading	09/01/2017
Trading procedure	Auction

Source: www.pse.cz

ORGANISATION BRANCH ABROAD

The Company has no organisation branch or other part of the business abroad and does not intend to form any.

ACQUISITION OF OWN BONDS

As of 31 December 2017, the Company did not hold any of its own bonds.

RESEARCH AND DEVELOPMENT ACTIVITY

During the year ended 31 December 2017, the Company performed R&D activities with respect to the internal development of a new ERP system and its components in a total amount of CZK 16.4 million. We have focused on three main areas: personalization, customer experience and warehouse management system improvements. We started the analytical phase of dividing the ERP into separate micro services to ensure better maintenance and to enhance system stability. We have prioritized projects which are aimed at a better shopping experience for our customers, primarily we have implemented the logic behind mapping size charts of individual brands to our universal size chart and so we are now able to help our customers pick the best fitting size. In addition, we focused on personalization and implemented a new recommendation tool. We have also upgraded the logistic processes, increased capacity and provided continuous support for our growing warehouse and its automation. The ERP system started to cover the processes of ordering goods from our suppliers and their tracking prior to delivery at our warehouse. We have seen a huge benefit in continual development of our Data Warehouse solution ("DWH") and reporting platform, which was implemented in the previous years. We have also experimented with machine learning, focusing mainly on visual classification of our products.

APPLICABLE LEGAL GUIDELINES

This Annual Report has been prepared in accordance with applicable legal guidelines and regulations including Act No. 90/2012 Coll., Business Corporations Act and Act No. 256/2014 Coll., on Capital Market Business, as amended. In addition, this Report is also compliant with our own Articles of Association and related business codes.

REPORT ON RELATED PARTY TRANSACTIONS FOR THE YEAR ENDED 31 DECEMBER 2017

The statutory body of ZOOT a.s., corporate ID 282 06 592, with its registered office at Zubatého 295/5, Prague 5 – Smíchov, postal code 150 00, recorded in the Register of Companies maintained by the Municipal Court in Prague, Section B, Insert 13119 (hereinafter **"ZOOT CZ"** or the **"Company"**), as the statutory body of the controlled entity, prepared this Report on Relations, in accordance with Section 82 et seq. of Act No. 90/2012 Coll., on Business Corporations and Cooperatives (hereinafter the **"Report on Relations"**), between the controlling entity and the controlled entity and between the controlled entity and entities controlled by the same controlling entity (hereinafter the **"ZOOT Group"**) for the reporting period from 1 January 2017 to 31 December 2017 (hereinafter the **"Reporting Period"**).

STRUCTURE OF RELATIONS BETWEEN THE CONTROLLING ENTITY AND THE CONTROLLED ENTITY

CONTROLLING ENTITY

For the year ended 31 December 2017, the controlling entity of the Company was ZOOT B.V., organised and existing under Dutch law, with its registered office at Strawinskylaan 937, Amsterdam, 1077XX, the Netherlands, recorded in the Register of Companies in the Netherlands maintained by the Chamber of Commerce in Amsterdam under registration number 56539932 (hereinafter "**ZOOT BV**"), which owned shares representing, in the aggregate, a 100% contribution to the share capital of the Company.

COMPANIES CONTROLLED BY THE CONTROLLING ENTITY

As of 31 December 2017, ZOOT BV controlled, directly or indirectly, the following entities:

i) ZOOT SK s. r. o., a company organised and existing under Slovak law, corporate ID 46 759 620, with its registered office at Karadžičova 12, Bratislava-Ružinov 821 08, recorded in the Register of Companies maintained by the District Court in Bratislava I, File: Sro, Insert 83016/B (hereinafter "**ZOOT SK**") in which ZOOT BV owned a 100% share as of 31 December 2017;

ii) ZOOT SRL, a company organised and existing under Romanian law, CUI: 34933500, with its registered office at Paleologu nr. 24, et. 1, camera E115, sector 3, Bucharest, Romania, recorded at the Court for Bucharest under file no. J40/10528/2015 (hereinafter "**ZOOT RO**") in which ZOOT BV owned a 100% share as of 31 December 2017; and

iii) BOREM s.r.o., corporate ID: 291 48 855, with its registered office at Zubatého 295/5, Prague 5 – Smíchov, postal code 150 00, recorded in the Register of Companies maintained by the Municipal Court in Prague, File C, Insert 204150 (hereinafter "**BOREM**") in which the Company owned a 100% share as of 31 December 2017.

ROLE OF THE CONTROLLED ENTITY

In the year ended 31 December 2017, the role of the Company in the ZOOT Group involved the performance of the entire business activity in the Czech Republic and the provision of support services and goods rendered to the Company's fellow subsidiaries in Slovakia and Romania for a fee based on the given market conditions.

MANNER AND MEANS OF CONTROL

The means of controlling the Company by ZOOT BV predominantly involve means at the shareholders' level. Control is exercised by the decisions of ZOOT BV, as the Company's sole shareholder acting in the capacity of the General Meeting, and by carrying out decisions of the supervisory board of ZOOT B.V. formed by five (5) persons representing the shareholders of ZOOT B.V. and external advisors.

Overview of Selected Acts in the ZOOT Group

In the Reporting Period, ZOOT CZ provided ZOOT SK and ZOOT RO, i.e. companies controlled by the controlling entity, with services in the scope and under the terms of mutual cooperation agreements enabling ZOOT SK and ZOOT RO to operate e-shops on the www.ZOOT.sk and www.ZOOT.ro domains and deliver their customers goods purchased by the two Group companies exclusively from ZOOT CZ.

At the end of the Reporting Period, the Company had receivables from ZOOT SK, ZOOT RO and ZOOT BV amounting to CZK 201.8 million, CZK 140.0 million and CZK 0.8 million respectively. The Company reported payables to ZOOT SK and BOREM amounting to CZK 225 thousand and CZK 185 thousand respectively at the end of the Reporting Period. No payables to ZOOT RO and ZOOT BV and no receivables from BOREM were reported by the Company at the end of the Reporting Period.

In the Reporting Period, the controlling entity and the Company or the Company and other entities controlled by the controlling entity concluded no further mutual agreements.

At the end of the Reporting Period, the Company had no outstanding loan from or to ZOOT BV or other Controlled companies.

DETRIMENT SUFFERED BY THE COMPANY

The Company suffered no detriment as a result of the influence exercised by ZOOT BV in the Reporting Period. For this reason, no detriment will be settled pursuant to Sections 71 and 72 of the Business Corporations Act.

ADVANTAGES AND DISADVANTAGES ARISING FROM THE COMPANY'S PARTICIPATION IN THE ZOOT GROUP

The advantages arising from the Company's participation in the ZOOT Group include namely the synergistic effect of savings achieved in the purchase of goods as well as savings from the economies of scale on most activities related to the operation of the e-shop (warehouse, transport, IT etc.). Another advantage arising from the Company's participation in the ZOOT Group predominantly relates to a simple shareholder structure as the Company only has a sole shareholder, which enables flexible decision-making at the shareholder level.

The Company's statutory body is not aware of any disadvantage arising from the Company's participation in the ZOOT Group. Therefore, the Company's participation in the ZOOT Group results in more advantages than disadvantages.

The Company's statutory body is not aware of any risks arising from the Company's participation in the ZOOT Group.

In Prague on 31 March 2018

Signature:______________________

Name: Ladislav Trpák
Position: Chairman of the Board of Directors

METRICS DEFINITIONS & ABBREVIATION

Adjusted EBITDA

We define adjusted EBITDA as EBITDA before cash-settled share-based compensation expense and other non-operating one-time effects.

Annual Average Order value

The sum of total merchandize value ordered, divided by the sum of monthly unique customers computed separately each month.

Corporate responsibility

Corporate Responsibility is a business approach that takes responsibility for social and environmental impacts resulting out of company activity. The goal is to create long-term value for shareholders, other stakeholders and communities by embracing the opportunities associated with economic, environmental and social developments.

Customers

We define customers as the number of customers who have placed at least one order in the last 12 months during the reporting period, irrespective of cancelations or returns. This number includes the customers from the Czech Republic, Slovakia and Romania.

EBIT

EBIT is short for “earnings before interest and taxes”.

EBITDA

EBITDA is short for EBIT before depreciation and amortization of property, plant and equipment and intangible assets.

Employees

The actual amount of full time employees and temporary as of 31 December including part time employees weighted based on their time spent during December.

Number of Items sold

The individual pieces of goods that were bought and paid for net of refunds.

Number of Orders

We define the number of orders as the number of orders placed by customers during the reporting period, irrespective of cancelations or returns. An order is counted on the day the customer places the order. The number of orders placed may differ from the number of orders delivered because the orders at the end of the reporting period may still be in transit or may have been cancelled.

Original Founders

Ladislav Trpák, Oldřich Bajer and Petr Ladžov

T&B network

The Try & Buy network of physical locations where our customer can pick up and try on ordered goods.