

Westwing Group GmbH

Berlin

Financial Statements and Management Report

31 December 2017

Westwing Group GmbH, Berlin
Balance sheet as of 31 December 2017

Assets	31.12.2017 EUR	31.12.2016 EUR	Passiva	31.12.2017 EUR	31.12.2016 EUR
A. Fixed assets			A. Equity		
I. Intangible assets			I. Subscribed capital	91.702,00	91.702,00
1. Internally generated intangible rights and assets	3.573.209,25	3.113.280,93	II. Capital reserves	235.757.613,59	234.922.561,56
2. Purchased software, licenses and similar rights	261.884,08	350.860,45	III. Reserve for own shares	-998.488,79	-998.488,79
	<u>3.835.093,33</u>	<u>3.464.141,38</u>	IV. Accumulated loss	-72.620.772,51	-24.883.115,14
II. Property, plant and equipment				<u>162.230.054,29</u>	<u>209.132.659,63</u>
Other equipment, furniture and fixtures	1.503.976,37	1.357.057,58			
	<u>1.503.976,37</u>	<u>1.357.057,58</u>	B. Provisions		
III. Financial assets			Other provisions	<u>2.175.754,64</u>	<u>1.434.408,33</u>
1. Shares in affiliates	3.284.152,35	3.603.821,72		2.175.754,64	1.434.408,33
2. Loans to affiliates	178.478.686,52	207.100.160,24	C. Liabilities		
	<u>181.762.838,87</u>	<u>210.703.981,96</u>	1. Trade payables	245.027,95	929.106,75
	187.101.908,57	215.525.180,92	2. Liabilities to affiliates	20.290.950,26	11.778.456,80
B. Current assets			3. Other liabilities	8.816.268,50	877.029,90
I. Receivables and other assets			thereof for taxes EUR 548.600,54 (Vj. EUR 391.908,60)		
1. Trade accounts receivable	18.052,62	5.819,00	thereof for social security EUR 40.949,81 (Vj. EUR 45.799,23)	<u>29.352.246,71</u>	<u>13.584.593,45</u>
2. Receivables from affiliates	1.633.421,97	1.910.875,96			
3. Other assets	2.686.413,53	1.964.940,44	D. Deferred income	167.450,60	0,00
	<u>4.337.888,12</u>	<u>3.881.635,40</u>			
II. Cash on hand and bank balances	<u>2.180.837,35</u>	<u>4.437.222,76</u>			
	6.518.725,47	8.318.858,16			
C. Prepaid expenses	304.872,20	307.622,33			
	<u>193.925.506,24</u>	<u>224.151.661,41</u>		<u>193.925.506,24</u>	<u>224.151.661,41</u>

Westwing Group GmbH, Berlin
Income statement for 2017

	2017 EUR	2016 EUR
1. Revenue	20.142.525,13	21.324.615,44
2. Other own work capitalized	3.656.552,54	1.960.607,23
3. Other operating income thereof income from currency translation EUR 4.889,81 (Vj. EUR 3.965,39)	512.623,67	999.676,43
Total income	<u>24.311.701,34</u>	<u>24.284.899,10</u>
4. Cost of materials Cost of purchased services	5.885.255,15	9.300.224,64
5. Personnel expenses a) Wages and salaries b) Social security	17.868.248,89 2.662.215,22	14.128.528,52 2.562.303,44
6. Amortization, depreciation and write-downs of intangible assets and property, plant and equipment	4.008.115,08	4.140.405,68
7. Other operating expenses thereof expenses from currency translation EUR 4.553,17 (Vj. EUR 7.629,45)	4.688.502,82	5.767.106,86
	<u>-10.800.635,82</u>	<u>-11.613.670,04</u>
8. Income from other securities and loans classified as fixed financial assets thereof from affiliates EUR 8.192.057,22 (Vj. EUR 7.945.830,47)	8.192.057,22	7.945.830,47
9. Other interest and similar income	0,00	96,09
10. Write-downs of financial assets	43.211.054,41	0,00
11. Interest and similar expenses thereof to affiliates EUR 559.250,00 (Vj. EUR 312.187,50)	1.918.024,36	392.607,70
Financial result	<u>-36.937.021,55</u>	<u>7.553.318,86</u>
Result before taxes	<u>-47.737.657,37</u>	<u>-4.060.351,18</u>
12. Income taxes	0,00	182,96
13. Result after taxes/Net loss for the year	<u>-47.737.657,37</u>	<u>-4.060.168,22</u>
14. Loss carryforward	-24.883.115,14	-20.822.946,92
15. Accumulated loss	<u><u>-72.620.772,51</u></u>	<u><u>-24.883.115,14</u></u>

Westwing Group GmbH, Berlin

Notes to the financial statements for the financial year from 1 January 2017 to 31 December 2017

I. General information

The Westwing Group GmbH ("Group GmbH" or "Company") is a limited liability company incorporated in Germany, and registered in Berlin, Germany (commercial register of Berlin- Charlottenburg HRB 136 693 B).

These financial statements have been prepared in accordance with §§ 242 et seq. and §§ 264 et seq. HGB as well as the relevant provisions of the GmbHG (German Limited Liability Companies Act) based on the going concern assumption. The Company meets the criteria of a medium-sized company pursuant to § 267 para 2 HGB. The balance sheet and the profit and loss account correspond to §§ 266, 275 HGB and § 42 of GmbHG. Disclosure exemptions in accordance with § 288 HGB have been applied in these notes to the financial statements.

The profit and loss account is prepared without change in accordance with the total costs method.

Amounts are expressed in thousands of Euro (T€, TEUR) unless otherwise indicated.

In order to improve the clarity of the financial statements, we summarized individual balance sheet and income statement items and presented and commented on them separately in these notes to the financial statements.

The accounting and valuation methods applied are generally consistent with those of the prior year.

II. Accounting and valuation principles

The following accounting and valuation methods were used to prepare the financial statements:

Purchased **intangible assets** are recognized initially at cost. The intangible assets are recognized in subsequent periods at cost less accumulated amortization. In prior periods a goodwill was recognized and amortized fully over the useful life of three years.

Research and development costs are expensed as incurred, except for certain development costs which can be capitalised in accordance with § 248 HGB.

Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Company are recognised as intangible assets when the following criteria are met:

- It is technically feasible to complete the software product.
- Management intends to complete the software product and use or sell it.
- There is an ability to use or sell the software product.
- It can be demonstrated how the software product will generate probable future economic benefits.
- There are adequate technical, financial and other resources to complete the development.
- There are adequate technical, financial and other resources to use or sell the software product.
- The expenditure attributable to the software product during its development can be reliably measured.

The directly attributable costs that are capitalized as part of software products include employee related expenses and costs incurred for external services needed to develop the software. Other development expenditures that do not meet these criteria are recognised as expenses as incurred. Development costs previously recognised as expenses are not recognised as an asset in a subsequent period.

The intangible assets recognized in the balance sheet are largely made up of purchased or internally generated software which is amortized over an estimated useful life of 3 - 5 years using the straight-line method.

Expenses for maintenance and repair are recognized as incurred.

Interest on debt borrowed for the acquisition of intangible assets is not recognized as part of production costs.

Property, plant and equipment are recognized at acquisition or production cost and are depreciated. Depreciation was recorded using the straight-line method over the customary useful life. Acquisition and production costs contain expenses that are directly attributable to the acquisition. Subsequent acquisition and production costs are only recognized as part of the acquisition and production cost of the asset or — where relevant — as a separate asset when it is probable that future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably.

Expenses for maintenance and repair are recognized as incurred.

Property, plant and equipment are depreciated over their estimated useful lives.

The expected useful life of property, plant and equipment is as follows:

Office furniture, equipment and fixtures	2 - 14 years
Vehicles	6 - 8 years

Low-value assets up to a net value of EUR 150.00 are recognized in their acquisition year as expense.

Production or acquisition costs for **low-value assets** with a value between EUR 150.00 and EUR 410.00 are fully deducted in their production or acquisition year.

Interest on debt borrowed for the acquisition of property, plant and equipment is not recognized as part of production cost.

With regard to **financial assets**, equity investments are recognized at cost and loans at their nominal value or at the lower fair value.

Receivables and other assets are measured at the lower of nominal value and fair value at the balance sheet date. All receivables and other assets, with the exception of rental deposits, have a remaining maturity of less than one year.

Prepaid expenses are assets on the balance sheet that represent services or goods to be received after the balance sheet date, for which a cash outflow occurred before the balance sheet date.

Cash on hand as well as **bank balances** are stated at their nominal value.

To determine **deferred taxes** resulting from temporary or semi-permanent differences between the book values of assets, liabilities, accrued and deferred items and their tax bases, these are measured with the individual company tax rates at the time of reduction of differences. The resulting amounts of tax burden and relief are not discounted. Deferred tax assets and liabilities are offset. The recognition of a deferred taxes excess was omitted by exercising the corresponding option.

Provisions account for all discernible risks and uncertain liabilities taking into account expected future price and cost increases and were set up at the settlement value deemed necessary by prudent business judgment.

As compensation for their work, some employees receive cash-settled share-based payments. The expenses arising as a result of cash-settled transactions with employees of the Company are initially valued at fair value at the date on which they are granted using the discounted cash flow model. The fair value is recognized as a liability on a straight-line basis over the vesting period, resulting in an expense.

The liability is revalued at each balance sheet date. Changes to fair value are recognized in the relevant functional costs or other operating income, if applicable.

Liabilities are stated at their settlement amount.

Subscribed **capital** is stated at nominal value. Each amount paid in that exceeds the nominal amount or is voluntarily paid in is recorded in the capital reserve.

All foreseeable risks and losses incurred by the reporting date have been carefully assessed and considered, even if they only became apparent between the reporting date and the preparation of financial statements.

Only profits realized by the reporting date have been considered. Income and expenses for the financial year have been considered regardless of the timing of the payment.

Business transactions in foreign currencies were converted at the spot rate prevailing at the reporting date; unrealized gains are only recognized when they are short-term and, therefore, sufficiently secure.

III. Notes to the Balance Sheet

Intangible assets

The intangible assets of the Company consist of acquired and internally generated software.

Additions to internally generated intangibles of TEUR 3,657 (31.12.2016: TEUR 1,676) mainly include additional development costs in respect of the following two IT systems:

- OMS warehouse management system
- Partner Portal platform that facilitates the interaction with suppliers

as well as other own software for consumer apps and the internationalization of WestwingNow and product information systems. The projects are divided into partial projects for the development of new features.

The total amount of research and development costs for the financial year was TEUR 5,277 (prior year TEUR 4,295).

In the fiscal year 2017 the valuation of software under development was analyzed. Westwing decided to terminate specific projects. The net book value of these projects was unplanned impaired totaling to TEUR 1,020. In prior year for intangible assets no impairment indicators existed.

Property, plant and equipment

The Company's tangible assets mainly consist of office furniture and equipment.

Shares in affiliates and loans

Loans include only loans to affiliated companies, which have an interest rate between 0,1% to 4.5% per annum. These are of short-term nature, if no sub-ordination agreements exist. Since the provided loans have economically a long-term nature and no significant repayments are expected in the following year, they are classified as non-current financial assets.

As in prior years, the loans have been subject to an impairment test. Consequently, the loans to affiliated companies in the amount of TEUR 21,184 were allowed for. Based on the resolutions by the management and advisory boards to sell the Russian and Brazilian operating units, the cost values of the shares of and loans to Russia were fully allowed, and for Brazil partially allowed for. In Brazil and Russia negotiations are ongoing to sell these entities. For Brazil the likelihood to generate sales proceeds is relatively high. In total an additional expense of TEUR 20,527 was incurred. Furthermore, a receivable amounting to TEUR 1,500 from the Russian entity was fully written off.

Receivables and other assets

Receivables from affiliated companies are stated at their nominal value. These are mainly trade receivables from costs allocations, which are due within 14 days.

Other assets include mainly rent deposits (TEUR 1,418; 31.12.2016: TEUR 1,653) as well as creditors (TEUR 356; 31.12.2016: TEUR 266).

All receivables and other assets have are due within one year except for the rent deposits.

Equity

The subscribed capital at the balance sheet date was EUR 91,702. The capital reserve contains amounts paid in excess of the nominal capital.

In January 2017 a loan agreements over EUR 10 million was entered into between Westwing and Kreos with two tranches and a warrant agreement. The warrant agreement provides Kreos the option to be provided with shares in Westwing upon execution of the warrants. The number of shares to be provided depends on the loan tranches' amount. Consequently, the number increased with both tranches fully executed in April and June 2017. Based on the relationship between the options on shares and the loan agreed, the value of the option is accounted for as an amount paid in excess of the nominal capital increasing the capital reserves. The capital reserves increased by TEUR 835 to TEUR 235,758 (31.12.2016: 234,923).

The net book value of internally generated intangible assets (TEUR 3,573; 31.12.2016: TEUR 3,113) is considered restricted for distribution according to § 268 para 8 HGB.

The net loss of the year will be carried forward together with the loss carryforward This represents also the proposal for the appropriation of retained earnings.

On 22 April 2016 the managing directors were authorized by a shareholders' resolution to increase the nominal capital until 9 May 2021 up to EUR 15,000 (authorized capital 2016/I).

On 16 December 2016 the managing directors were authorized by a shareholders' resolution to increase the nominal capital by up to EUR 450 against cash in one or more steps (authorized capital 2016/II).

As of 31 December 2017 the Company has an authorized capital 2013/II amounting to EUR 600, which might be executed until 13 August 2018.

Provisions

Other provisions totaling TEUR 2,176 (31.12.2016: TEUR 1,434) include mainly provisions for marketing (TEUR 40; 31.12.2016: TEUR 168), provisions for outstanding invoices (TEUR 555; 31.12.2016: TEUR 702), provisions for personnel (TEUR 659; 31.12.2016: TEUR 428), provision for rent-free periods (TEUR 860; 31.12.2016: nil) and a provision for restoration (TEUR 44; 31.12.2016: TEUR 117).

Share-based compensation with cash settlement

The Company provides, at its discretion, share-based compensation to employees under the so-called Employee Share Option Plan (ESOP), which is settled in cash. Individual contracts contain various criteria that must be met in order to assert the claims.

In principle, the contractual term of the agreements is four years, over which the claims can be earned evenly.

In addition, contracts stipulate that the claims can only be asserted upon certain events.

The expenses arising as a result of cash-settled transactions are initially valued at fair value at the date on which they are granted using the discounted cash flow model. The fair value is expensed over the period until vesting with recognition of a corresponding liability. This liability is revalued at each balance sheet date. Changes to fair value are recognized in the relevant functional costs.

At 31 December 2017, the provision amounted to TEUR 10 (31.12.2016: TEUR 19).

Liabilities

Liabilities shown in the balance sheet can be divided as follows:

	31.12.2017	31.12.2016
	TEUR	TEUR
Trade payables	245	929
Liabilities to affiliated companies		
- thereof trade payables and other liabilities	5,407	1,802
- loans from affiliated companies	14,884	9,976
Other liabilities		
- loans	8,066	0
- taxes payable	549	392
- from social security	41	46
- other	160	440
Total	<u>29,352</u>	<u>13,585</u>

As of 31 December 2017 the Company disclosed in the other liabilities a loan from Kreos in the amount of TEUR 8,066 (31.12.2016: nil). On 10 January 2017 Westwing concluded a loan agreement with Kreos over EUR 10 million in two tranches. Both tranches were executed on 3 April 2017 and on 30 June 2017 over EUR 5 million each. Both tranches are being repaid within 33 or 31 months respectively. The loans have an effective interest rate of 11.98% (tranche 1) and 12.03% (tranche 2) respectively. The nominal interest rate is 10.75%. On execution of the loan agreement a fee of TEUR 50 became due. In addition, a fee of 0.4% of the tranches utilized will fall due at the end of the term ("end of loan payment"). The loan is accounted for at amortized costs. An amount of TEUR 4,424 has a duration between one and five years, the rest has a remaining term of up to one year.

The loan agreement contains an option agreement which allows Kreos to receive Westwing's shares upon execution of the warrant. The option is a derivative financial instrument, the value of which was transferred to the capital reserve in accordance with § 272 para. 2 No. 2 HGB in the amount of TEUR 835. At 31 December 2017 the option had a fair value of TEUR 770.

Another loan agreement with Kreos Capital executed in 2013 contained also an option agreement with similar conditions. Also this option represents a derivative financial instrument, the value of which was transferred to the capital reserve in accordance with § 272 para. 2 No. 2 HGB in the amount of TEUR 564 in 2013. At 31 December 2017 the option had a fair value of TEUR 640 (31.12.2016: TEUR 868).

Furthermore the other liabilities have a remaining due date within one year except for a partial amount of TEUR 4,271 (31.12.2016: TEUR 1,629) being part of the liabilities due to affiliated companies, which have a remaining duration between one and five years. These contain liabilities originated in an asset deal and were transferred from Westwing Home & Living GmbH (nowadays Westwing GmbH) to Westwing Group GmbH representing payables due to employees for cash-settled share-based compensation. This obligation is recognized as a liability to affiliated companies.

To secure the loan amounting to TEUR 8.066, the Westwing Group GmbH provided several collaterals to Kreos, including, in particular, the pledge of bank accounts amounting to TEUR 2,180, as well as outstanding shares of certain affiliates as well as limitations on the disposal of assets.

Deferred income

The deferred income amounting to TEUR 167 (31.12.2016: nil) includes a subsidy received for the new offices in the Moosacher Straße 88, which is released over the rental period.

IV. Notes to the income statement

Revenue

Westwing Group GmbH does not generate revenues with third parties, but only has income from intragroup recharges for services rendered of TEUR 20,143 (2016: TEUR 21,324), which are shown as revenue.

Other own work capitalized

The other own work capitalized include personnel expenses and other capitalized costs to develop software as part of the intangible assets amounting to TEUR 3,657 (2016: TEUR 1,960).

Other operating income

Other operating income of TEUR 513 (2016: TEUR 1,000) contains vendor incentives with TEUR 303 (2016: TEUR 236) and public subsidies for maternity leaves of TEUR 101 (2016: TEUR 63). In the prior year an amount of TEUR 215 was included resulting from the release of provisions for cash-settled share-based compensation.

Cost for services received

The cost for services received of TEUR 5,885 (2016: TEUR 9,300) arose in connection with services rendered by external parties, which were recharged within the Group. They mainly relate to central marketing and IT services.

Headcount

During the year, the Company employed an average of 217 employees excluding managing directors (2014: 223) with the following split:

	<u>2017</u>	<u>2016</u>
Administration	143	162
Sales	<u>74</u>	<u>61</u>
Total	<u>217</u>	<u>223</u>

Personnel expenses amounted to TEUR 20,530 (2016: TEUR 16,691). They can be broken down as follows:

	<u>2017</u> <u>TEUR</u>	<u>2016</u> <u>TEUR</u>
Salaries and wages	15,206	14,129
Social security	2,662	2,562
Share based compensation - ESOP	<u>2,662</u>	<u>0</u>
Total	<u>20,530</u>	<u>16,691</u>

Other operating expenses

Other operating expenses of TEUR 4,689 (2016: TEUR 5,767) mainly comprise costs incurred in connection with headquarter functions, which could not be recharged.

Financial result

In 2017 income from financial non-current assets amounted to TEUR 8,192 (2016: TEUR 7,946). Interest expense of TEUR 1,918 (2016: TEUR 393) arose mainly from loans from third parties, primarily Kreos, with TEUR 1,359 and in the amount of TEUR 559 with affiliated companies. The interest expense for Kreos resulted from the expensed disagio resulting from the warrant agreement as well as the supplemental interest expense for the loan. The write down of financial non-current assets resulted into expenses of TEUR 43,211 (2016: nil).

V. Other

Other financial obligations

Financial obligations were as follows on a gross base:

Maturity	< 1 year TEUR	1 - 5 years TEUR	> 5 years TEUR	total TEUR
Rental contracts	2,153	8,558	8,911	19,622
Service contracts	513	0	0	513
Server operating leases, etc.	297	166	0	463
	2,963	8,724	8,911	20,598

Westwing partially uses fixed assets based on rental and operating lease contracts. This implies a lower capital base being fixed and that the investment risks remains with the lessor.

Contingent liabilities

The Company has the following contingent liabilities:

	31.12.2017 TEUR	31.12.2016 TEUR
Guarantees	<u>2,670</u>	<u>4,774</u>
	<u>2,670</u>	<u>4,774</u>

Due to the holding and financing function of the Company within the Group, contingent liabilities have been entered into in order to support the business operations of affiliates. The risk of claims from individual contingencies is considered to be immaterial, as the respective affiliates develop positively according to the expectations.

Shareholding

The Company holds the following shares at the balance sheet date directly or indirectly:

Company	Registered office	Equity in EUR or converted at the closing rate	Owner-ship share in %	Result of the year in EUR
Westwing GmbH (formerly Westwing Home & Living GmbH)	Munich	-69,352,693.88	72.03	-5,390,500.43
wLabels GmbH	Berlin	-3,435,008.97	100.0	-2,647,599.59
Westwing Commercial GmbH	Berlin	23,894.38	100.0	-279.68
VRB GmbH & Co. B-156 KG	Berlin	-9,060.84	90.0	-1,445.21
VRB GmbH & Co. B-157 KG	Berlin	-1,570,206.68	76.0	-571,847.86
Bambino 65. V V UG	Berlin	-31,968.57	100.0	-1,543.49
Westwing Spain Holding UG	Berlin	-276,161.09	94.1	-305,572.35
Westwing France Holding UG	Berlin	-300,245.12	94.6	-368,337.05
VRB GmbH & Co. B-166 KG	Berlin	-4,128.01	90.0	-790.16
Westwing Italy Holding UG	Berlin	-1,580,240.13	88.8	-930,607.26
VRB GmbH & Co. B-165 KG	Berlin	-13,791.57	90.0	-6,474.36
VRB GmbH & Co. B-167 KG	Berlin	-5,433.72	90.0	-1,917.08

Company	Registered office	Equity in EUR or converted at the closing rate	Owner-ship share in %	Result of the year in EUR
Westwing Netherlands Holding UG	Munich	52,289.98	87.1	18,757.56
Tekcor 1. V V UG	Bonn	12,954.45	91.0	-16,589.86
Brillant 1256. GmbH & Co. Dritte Verwaltungs KG	Berlin	101,636.29	88.0	5,808.16
Bambino 68. V V UG	Berlin	-2,572,214.48	93.7	-207.49
VRB GmbH & Co. B-160 KG	Berlin	-551,372.56	90.0	-2,154.19
Bambino 66. V V UG	Berlin	-3,870,285.40	93.9	-236.92
Brillant 1256. GmbH	Berlin	-1,987,046.14	100.0	-1,855,958.23
Juwel 183. V V UG	Berlin	3,653.46	100.0	1,590.86
WW E-Services Iberia S.L.	Barcelona	191,962.68	94.1	-5,726,721.77
WW E-Services Italy S.r.l.	Milan	657,865.71	88.8	-5,916,649.74
WW E-Services France SAS	Paris	-1,477,267.45	94.6	-7,666,803.49
Westwing Home and Living Poland S.P. Z O.O.	Warsaw	-123,162.71	91.0	-4,823,593.69
WW E-Services The Netherlands B.V.	Amsterdam	-13,758,094.43	87.1	-5,150,080.75
Westwing Comercio Varejista Ltda.	Sao Paulo	-3,609,840.08	76.0	-3,715,416.40
Westwing Russia OOO	Moskow	-16,103,154.40	88.0	-5,293,643.86

The Company prepares the consolidated financial statements for the smallest and the largest group of companies. The consolidated financial statements will be published in the Federal Gazette.

Events after the balance sheet date

On 23 March 2018, Westwing Group GmbH and GGC EUR S.À.R.L, an affiliate of Rocket Internet SE, entered into a credit facility agreement amounting to EUR 15.0 million and signed an option agreement. The option is accounted for separately, as it is independent from the credit line granted. The value of the option was TEUR 1,047. The first tranche of EUR 5.0 million had to be drawn within three months after signature. It was pulled on 19 April 2018. The remaining credit facility can be drawn within 18 months. The loan has a term of three years and is due at maturity including accumulated interest

Furthermore in May and June 2018 it was decided by management and approved by the Advisory Board to divest the Russian and Brazilian operating companies. Both countries offer only few synergies with the rest of the Group. Total assets amounted to EUR 8.7 million end of 2017, and revenue in the financial year 2017 was EUR 46.2 million.

Auditor fees

Information on fees paid to auditors has been disclosed as part of the consolidated financial statements of Westwing Group GmbH. The consolidated financial statements will be published in the Federal Gazette (Bundesanzeiger).

Managing Directors

The managing directors throughout the year were Stefan Smalla (CEO) and Dr. Dr. Florian Drabeck (CFO). Both are exempted from the restrictions of § 181 BGB. The disclosure of executive remuneration has been waived under § 286 para. 4 HGB.

Munich, 2 July 2018

Westwing Group GmbH

Stefan Smalla
Managing Director

Dr. Dr. Florian Drabeck
Managing Director

Statement of changes in fixed assets for the financial year ended 31 December 2017

	Acquisition and production costs				Accumulated amortization, depreciation and write-downs				Net book values	
	01.01.2017 EUR	Additions EUR	Disposals EUR	31.12.2017 EUR	01.01.2017 EUR	Additions EUR	Disposals EUR	31.12.2017 EUR	31.12.2017 EUR	31.12.2016 EUR
I. Intangible assets										
1. Internally generated intangible rights and assets	4.267.847,11	3.656.552,54	/./ 1.019.707,25	6.904.692,40	/./ 1.154.566,18	/./ 3.196.624,22	1.019.707,25	/./ 3.331.483,15	3.573.209,25	3.113.280,93
2. Purchased software, licenses and similar rights	676.787,17	149.060,74	/./ 115.641,25	710.206,66	/./ 325.926,72	/./ 238.037,11	115.641,25	/./ 448.322,58	261.884,08	350.860,45
3. Goodwill	4.337.562,43	0,00	0,00	4.337.562,43	/./ 4.337.562,43	0,00	0,00	/./ 4.337.562,43	0,00	0,00
	9.282.196,71	3.805.613,28	/./ 1.135.348,50	11.952.461,49	/./ 5.818.055,33	/./ 3.434.661,33	1.135.348,50	/./ 8.117.368,16	3.835.093,33	3.464.141,38
II. Property, plant and equipment										
Other equipment, furniture and fixtures	3.271.232,90	890.903,67	/./ 175.987,69	3.986.148,88	/./ 1.914.175,32	/./ 573.453,75	5.456,56	/./ 2.482.172,51	1.503.976,37	1.357.057,58
	3.271.232,90	890.903,67	/./ 175.987,69	3.986.148,88	/./ 1.914.175,32	/./ 573.453,75	5.456,56	/./ 2.482.172,51	1.503.976,37	1.357.057,58
III. Financial assets										
1. Shares in affiliates	3.637.486,50	0,00	/./ 197.455,96	3.440.030,54	/./ 33.664,78	/./ 122.213,41	0,00	/./ 155.878,19	3.284.152,35	3.603.821,72
2. Loans to affiliates	207.100.160,24	22.264.022,65	/./ 9.296.655,37	220.067.527,52	0,00	/./ 43.088.841,00	1.500.000,00	/./ 41.588.841,00	178.478.686,52	207.100.160,24
	210.737.646,74	22.264.022,65	/./ 9.494.111,33	223.507.558,06	/./ 33.664,78	/./ 43.211.054,41	1.500.000,00	/./ 41.744.719,19	181.762.838,87	210.703.981,96
Total	223.291.076,35	26.960.539,60	/./ 10.805.447,52	239.446.168,43	/./ 7.765.895,43	/./ 47.219.169,49	2.640.805,06	/./ 52.344.259,86	187.101.908,57	215.525.180,92

Westwing Group GmbH
Berlin

Management Report

31 December 2017

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Westwing Group GmbH Management Report

1. Basic information

1.1 Group structure and activities of Westwing Group GmbH

Westwing Group GmbH, a limited liability company that is registered in the commercial register of the District Court of Berlin HRB 136693 B, is the parent company of the internationally operating Westwing Group. The head office of the company is located in Munich at the following business address Moosacher Str. 88, 80809 Munich, Germany.

The company was founded in 2011 by Delia Fischer, Georg Biersack, Matthias Siepe, Stefan Smalla and Tim Schaefer. As the parent company, Westwing Group GmbH itself has no operating business with third parties, and is represented in various countries by its subsidiaries. At the end of 2017, the Westwing Group comprised a total of 27 subsidiaries (2016: 27), all of which are included in the consolidated financial statements of the parent company Westwing Group GmbH. The Group is active in the European core markets Germany, Austria and Switzerland (DACH), Italy, France, Spain, Netherlands, Belgium, Poland, Czech Republic and Slovakia, as well as in the emerging markets of Brazil, Russia and Kazakhstan. In most countries, the Company has established itself as an industry leader.

Westwing Group GmbH is a holding company, which manages, funds, and provides services to the Group companies.

1.2 Business model of the Westwing Group

Westwing Group (following: Westwing) is one of the leading Home & Living eCommerce company serving its customers in 14 countries on three continents. Westwing stands out for its loved lifestyle brand, unique merchandize and content, extreme customer loyalty and an end-to-end market approach.

Westwing operates in the DACH area (Germany, Austria and Switzerland) as well as other international markets (Italy, France, Spain, the Netherlands, Belgium, Poland, Czech Republic, Slovakia, Brazil, Russia and Kazakhstan). In most countries, Westwing has been established as a leading company in the sector.

Westwing is an integrated Home & Living company that offers its customers a curated selection of beautiful home accessories and furniture, all presented to the customer in a 'shoppable magazine'. Westwing serves the market end-to-end, creates own private labels and inspires customers. The Company can rely on unique merchandise and content, leading to very high customer loyalty, and benefit from a profound in-house technology department and operations excellence.

As of December 2017, there is nearly 1 million active Westwing customers¹.

Customers are acquired organically via PR, social media, editorial content, referrals and search engine optimization ('SEO') as well as via paid channels such as search engine marketing ('SEM'), Facebook, display marketing, partner programs and selective TV advertisement. Once acquired, customers show a spending pattern afterwards leading to very attractive economics on marketing investments. More than 84% of the sales orders in any given month are generated by repeat customers with a strong engagement to the Westwing website, stimulated by inspiring content and attractive products.

¹ All customers with at least one order within the last 12 months

Westwing creates daily newsletters to keep its customers excited and convert them to loyal repeat buyers. The focus on customer relationship management ('CRM') plays an important role in Westwing's strategy. Every morning, registered customers receive a newsletter containing information on the daily sales campaigns, which are only available for a limited time period as well as updates on new decoration ideas how to beautify their apartments. The products that are offered are high quality Home & Living products.

While customer taste and expectations differ from country to country, the typical Westwing customer is relatively similar across all markets. The majority of Westwing's customers are female, between 30 and 55 years old and have access to a slightly higher than average disposable income. This profile is in line with women tending to make the decisions when it comes to furnishing and decorating living spaces. Just like most Home & Living magazines mainly target female customers, Westwing uses the same approach.

Customers can access Westwing's website and offerings via desktop as well as via Smartphone- or tablet-optimized sites, and dedicated apps for iOS and Android, which allow comfortable access from mobile devices. Consequently, Westwing profits from the ongoing shift to mobile usage, which currently constitutes more than 56% of the total Westwing orders.

On a global basis, Westwing has around 7,000 suppliers, ranging from exclusive and well-known brands to young and emerging local labels. All products are hand-selected by Westwing's experienced style directors, who carefully put together inspiring campaigns and a well-balanced merchandizing through an ever-fresh collection of curated home goods, thereby guaranteeing a unique look & feel of the website. The product selection and presentation of Westwing's website is continuously monitored and adjusted to suit the steadily increasing customer demands and latest market trends.

The Company's buying team is based on local purchase departments, each of which oversees their own supplier portfolio. The local teams are continuously working on opening relevant portfolios for the global markets, enabling suppliers to gain instant access to up to 14 markets. Here, the success factor of the campaign business is that Westwing places the order with the supplier not until the customer has made their order. This allows Westwing to offer a wide variety of products with attractive prices, while minimizing inventory and warehouse related costs.

As one key element, Westwing provides 'shoppable looks', showing how the products could fit in the customers' home as a means of inspiration. Interior experts within Westwing designs and furnishes entire rooms in different styles and most of the products (or very similar alternatives) featured in these looks are available for purchase on the website, directly from the picture of the corresponding look.

Overall, Westwing offers a superior customer experience through a broad and inspiring product selection, attractive pricing, ubiquitous access and consideration of local taste. Consequently, customers see Westwing as the go-to-destination for online Home & Living shopping and as desirable, loved brand.

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1.3 Strategy and Objectives of the Westwing Group

Westwing's overall strategy and objectives are closely linked to its mission ('To inspire and make every home a beautiful home') and its vision ('Be the worldwide leader in Home & Living eCommerce by creating the most inspiring customer experience and the most loved brand'). Westwing is an eCommerce company for Home & Living products, where customers gain inspiration for current and future trends. The Company aims to provide its customers with a well-curated spectrum of beautiful products at attractive prices.

Source of inspiration for Home & Living

Westwing sees itself as a source of inspiration for Home & Living furnishing and decoration. Consequently, Westwing provides a full range of product categories to its customers. Among the product categories offered are decoration and accessories, textiles, lighting, table- and kitchenware, small and large furniture, outdoor and garden, rugs, art, as well as other miscellaneous Home & Living products. For nearly all categories Westwing has created an offering for own private label products as well.

As implied in its vision, Westwing's main objective is to expand its leading market position and to become the main source of inspiration in the Home & Living domain for its customers on the one hand, and maximize shareholder value on the other. To achieve this, Westwing primarily focuses on increasing market share in its existing markets through profitable growth. In addition, Westwing continues to selectively monitor the opportunity to expand into new markets.

Superior customer acquisition

In order to increase revenue and market share, Westwing focuses on growth of its active customer base. This is achieved by keeping existing customers engaged through excitement and inspiration so that they regularly return to the website and ultimately make purchases, and by investing in the acquisition of new customers through organic marketing and paid marketing channels. Westwing customers show excellent loyalty metrics – once they have made a purchase, they very often remain loyal customers for many years.

Strong supplier relationships

The pro-active supply management has become increasingly important throughout the past years due to the continuous growth of the and international supplier network, along with the trend-driven, dynamic sales process. Intense key account management and networking events improve the close relations between the Company and its suppliers. Westwing has become not only distribution partner but also an important marketing channel for the suppliers. The Company thereby positions itself as a crucial strategic partner for all Home & Living brands. With nearly 1 million active customers, Westwing is able to offer their suppliers far-reaching brand promotion. This gives the suppliers the opportunity to gain market recognition and a customer following, accomplish new sales cooperation and also win the attention of sector-specific media coverage.

Attractive Westwing private label offering

Westwing attracts more and more customers with its own designed brands. These products are either directly labelled by the brand name Westwing, as the Westwing basics collection, or other brands registered by the Company such as Porte Maine, Grafenstolz, by46 besides other. As Westwing can directly influence quality as well as the design of these products, and private label brands are highly appreciated by customers, the assortment will be enlarged step by step.

Holistic customer experience

Next to the comprehensive shopping experience which Westwing customers can enjoy on the Company's websites, Westwing Germany has opened a temporary pop-up store in Munich city centre in September 2017. Here customers are able to look and feel products as an attractive enhancement to the detailed pictures shown on the website. The offline store enjoys great popularity especially for larger products as chairs and tables which can be ordered directly via store-owned tablets. The store was supposed to open for a limited period of months only, but as so many customers appreciated this additional option to explore Westwing's Home & Living inspiration, it was decided to prolong until April 2018. Options for the opening of a small selection of additional pop-up stores are explored.

Exceptional execution

A key success factor for any online retailer are logistical capabilities. Westwing has built an international logistics network with eight logistics centers. These logistics centers are set up to not only meet the requirements of an eCommerce company, but also to facilitate frequent international product movements. In most cases, the supply chain is coordinated so that Westwing acquires products locally, has them transported to the closest logistics center and distributes between group warehouses as required. A customized warehouse management software perfectly supports Westwing's business.

Westwing's experienced management team and the combination of strong data analytics, creative minds and experts on style are a key factor to achieve its objectives. In addition, Westwing aims to be an attractive employer. Since founding, the Company has invested in its workforce and has established a highly experienced, diversified workforce that possesses all the skills and attributes to provide a high-quality service offering every single day.

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1.4 Research and Development

As an eCommerce company it is of utmost importance to Westwing to develop an online presence that imparts the inspiration that Westwing wants to project, while staying agile and flexible at the same time.

In 2012, the Company licensed a web shop software that addresses these requirements. Since then, Westwing has invested in this software and developed it further so that it continues to cover the growing internal and external business requirements. An important development was the expansion of the supported technological landscape to address the increasing focus on mobile platforms. Westwing provides apps for iOS and Android devices as well as smartphone and tablet-optimized sites. In autumn 2015 a new version of the iOS App was introduced, which equally supports iPhone and iPad devices. Additionally, Westwing developed and uses a software called "Partner Portal" to support and facilitate the cooperation with suppliers as well as the analysis of suppliers, campaigns and products. The software also simplifies drop-shipment transactions, enabling Westwing to deliver products to customers faster.

To maintain its software architecture, Westwing has established a skilled in-house technology team that provides central support to all countries.

During the fiscal year 2017, the net book value of the internally generated or still being developed intangible assets increased by EUR 0.5m to a total of EUR 3.6m; the additions amounted to EUR 3.7m. Besides the regular amortization of capitalized development costs a complete write-off for a logistics and partner software under development was recorded amounting to EUR 1.0m. The share of capitalized development costs in total IT costs was 69.4% in 2017 (2016: 45.7%).

2. Economic developments

2.1 Overall situation of the economy and industry-specific conditions

Westwing operates in the market for online retailing of Home & Living products in 14 countries. The Company's revenue and profitability depend on conditions and prospects in this market. These include macro-economic developments, the conditions in the Home & Living markets in general and the prospects for eCommerce and mobile channels.

Macro-economically, Europe developed favorably in 2017: Real GDP had an estimated growth of 2.4%, providing a favorable business climate in general. In Germany, Westwing's largest market, real GDP growth was 2.4%, continuing the positive development of the previous years. The currencies of the Emerging Markets where Westwing has exposure – the Brazilian Real (BRL) and the Russia Ruble (RUB) – strengthened against the Euro (EUR) in 2017. Specifically, the BRL / EUR exchange rate decreased from 0.2915 end of 2016 to 0.2517 end of 2017 (decrease of 14%) and the RUB / EUR reduced from 0.0156 end of 2016 to 0.0144 end of 2017 (decrease of 8%). The impact of this development became particularly evident when translating the corresponding revenues from local currency to Euro.

The global Home & Living market amounts to approximately EUR 580 billion². The 14 countries in which Westwing operates cover approximately EUR 200 billion; this market consists of over 700m people.³

Currently the market for Home & Living products, compared to other retailing categories, does not yet show a high online penetration. While online penetration⁴ in Europe for Consumer Electronics is at 23.4% and for Apparel & Foot ware is at 13.5%, Home and Living is currently at only 6.5%. Given that the total (i.e. offline and online) Home & Living market is as big as the fashion market, there is a huge potential once as Home & Living moves online.

The shift from more traditional, high street focused shopping behavior to online shopping is mainly driven by the following factors:

- Broader product offering:

The online sales channel has given consumers access to a vastly wider, and thus more relevant, product range than ever before. An online retailer can offer a selection of products that no bricks and mortar retail store can offer, due to the physical constraints against stocking such a wide selection of goods. This attribute has enabled several players to swiftly become category leaders through a vast selection of products or services available combined with a wide geographical reach.

² 9M 2017 Results Rocket Internet Group & Selected Companies and Capital Markets Day 30/11/2017, presentation

³ International Monetary Fund: World Economic Outlook Database January 2018

⁴ Data for Western Europe, source: Euromonitor

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- Better availability for customers:

For the majority of consumers, visiting a physical retail store that meets their needs necessitates a planned outing and generally significantly more effort than ordering online. In some countries, home delivery is the norm, which makes the products even more accessible. In addition, browsing items is convenient for the customer; online stores are open 24 hours a day, seven days a week, and it saves time and costs otherwise spent traveling from shop to shop. Many pick-up points, typically provided by postal offices, gas stations, food retail stores and similar service providers, have extended opening hours and permit increasingly easier pick-up and returns in case products are not delivered directly to the home.

- Increasing familiarity with the advantages of online retail:

The general increasing familiarity with the Internet is a driving factor across all customer segments. There are numerous possible reasons for customers' initial reluctance to purchase products online. However, the reputation of online business' success, beginning in the 1990s, has engendered a degree of familiarity with and trust towards using the Internet to purchase products. In addition, the extensive use of social networks contributes to consumer familiarity with online shopping, as these networks are used as platforms for marketing of online retailing as well as customer communication.

- Mobile eCommerce (mCommerce):

As consumers go online, using mobile devices, smartphones and tablets already play a crucial role in the eCommerce purchase decision-making process. The eCommerce turnover via mobile devices continues to grow rapidly, providing users with market transparency and the possibility of anywhere, anytime interaction. This brings both new challenges and opportunities for the retail industry and advertisers alike in an omnipresent online marketplace.

These are relevant proof points that the eCommerce business world is in a good position to grow at much higher rates than the traditional retail business models over the coming years. Given the increased familiarity with online businesses, improved security of online transactions and improved customer service by online retailers, eCommerce business has clearly overcome earlier doubts.

This is especially true for e.g. consumer electronics, music, books, fashion and shoes where the penetration increased strongly within the last years. Westwing management expects that the Home & Living market will experience a similarly rapid development.

Given its early entry into this growing market, Westwing is well positioned to benefit from the positive trends of the market and industry. The Company considers itself among the market leaders in its segment in most of the geographic areas in which it is active.

Management believes that the online Home & Living market has the potential for significant growth and that Westwing is well prepared to seize the numerous and growing opportunities this market provides.

2.2 Business development of the Westwing Group

Building the foundation for the future, profitable growth was a key goal for Westwing in 2017. Looking back at 2017, this goal was fully achieved: Adjusted EBITDA margin⁵, which is among the key metrics management uses to assess the profitability, improved from -5.5% in 2016 to only -1.9% in 2017. In absolute numbers Adjusted EBITDA for the Group amounted to EUR -4.9m (previous year: EUR -13.8m). In Q4/2017, the seasonally strongest quarter in the Home & Living market, Westwing reached a positive Adjusted EBITDA margin of around +4%. As in the previous year, free cash flow, (i.e. sum of operating and investing cash flow) was positive in the fourth quarter. While focusing on improving profitability, revenue growth continued, reaching EUR 265.8m in 2017, up 6.2% on the prior year (adjusted for currency translation effects +4.5%). Overall, 2017's results are in line with previous years' forecast, with growth accelerating during the year.

Management is convinced that further strengthening of Westwing's market positioning in existing markets, strong customer loyalty and the successful acquisition of new customers as well as high cost consciousness and further efficiency improvements in operations were driving this improvement in profitability and growth. Serving its customers with beautiful products and inspiring them on a daily basis remains a key focus for Westwing and critical success factor. Management sees this as a key differentiating factor from competitors and as the main driver for Westwing's customer loyalty. Among other factors, new and exciting products with inspiring photos, engaging content and improvements to the website have all contributed to successful customer acquisition and an extremely high loyalty.

The DACH region (Germany, Austria and Switzerland), forming the role model for all other countries, had the highest absolute contribution to total revenue. Revenue amounted here to EUR 97.6m, a share of 36.7% of total group revenue. Furthermore, based on internal management accounting this region was sustainably profitable on the level of adjusted EBITDA⁶ in 2017. Thus, the DACH region serves as both, a role model and a blueprint for profitable growth in other countries.

The customer base was at 997k Active Customers in 2017 (2016: 996k). Over 90% of the customers were women. Due to the high level of customer loyalty, repeat customers account for more than 84% of orders each month. An increasing share of Westwing customers visits the site using Westwing's apps, which had been downloaded 5.1m times by the end of 2017. In 2017 the Westwing app has been downloaded and installed 1.3m times. In 2017, 69% of the visitors used mobile devices such as smartphones and tablets and 56% of all Westwing orders were generated via these channels.

In 2017, Westwing continued to develop infrastructure and technology to focus on simplification and standardization of processes and systems across the entire supply chain. In addition to cost savings, this resulted in an improved delivery quality.

In the fourth quarter of 2017, Westwing was again profitable (Adjusted EBITDA) as in the previous year, but at significantly improved margin (+0.9% pts vs prior year). Free cash flow was positive again in the fourth quarter again as well.

Management continues to prioritize long-term strategy over short-term profitability. Consequently, Westwing further invested into measures that will drive future growth and technology, which will help to bring down costs in the future. The successful fourth quarter of 2017 creates a favorable starting position for the 2018 fiscal year.

⁵ EBITDA Margin before share-based payments

⁶ EBITDA before share-based payments

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2.3 Economic situation of Westwing Group GmbH**2.3.1. Results of operations of Westwing Group GmbH**

Westwing Group GmbH itself derives no revenue from third parties, but only reports income from intercompany allocations for services rendered being recognised as revenue. For the financial year 2017, the company reported revenue of EUR 20.1m being EUR 1.2m less than in the prior year. The underlying reason were by EUR 2.2m lower marketing expenses compared to 2016. The other own work capitalized increased from EUR 2.0m in prior year to EUR 3.7m in 2017. Overall, an operating loss of EUR -10.8m was incurred in 2017 being slightly improved by EUR0.8m on the level before interest, amortization/depreciation, write offs on financial assets and taxes compared to a respective loss in 2016 of EUR11.6m. The loss was mainly due to fact that the own services could not be fully recharged to Group companies including also stewardship costs. Westwing Group GmbH realized as expected an operating loss excluding the write off on financial assets on a similar level as in prior year. The loss before taxes and write off on financial assets increased slightly by EUR0.5m, since the revenue decreased due to lower marketing and technology charges being recharged.

The financial result has various special elements included. On the one hand the interest charged to affiliates for loans has been lowered in the fourth quarter of 2017. The key element is, however, that write offs on loans and shares in subsidiaries as well as a forgiveness of loans. As a result of an impairment test three entities' loans needed to be written down. Though overall it is expected that the future development of the Westwing Group and the operational entities might be lead to be profitable, management decided on a case by case base that partially long-term loans needed to be impaired by EUR 21.2m. In one case a loan forgiveness of EUR 1.5m was expensed.

Based on the decisions made by management and approved by the Advisory Board in May and June 2018 to divest the Russian and Brazilian operating companies, the related investments, receivables and loans were impaired fully for Russia and partially for Brazil. The ongoing negotiations for Brazil indicate that a corresponding sales price is feasible. The decisions to divest resulted into an additional impairment charge of EUR 20.5m. The financial result decreased in total by EUR44.5m and represented in the 2017 a net financial expense of EUR 36.9m. Overall, the net loss increased year on year by EUR 43.7m to EUR -47.7m. Excluding the unplanned impairment charges on financial assets the loss incurred was EUR -4.5m in 2017 whereas in 2016 the loss incurred was EUR -4.1m.

Personnel expenses increased to EUR 20.5m (2016: EUR16.7m) primarily based on higher cash-settled share-based compensation expenses, which increased by EUR 2.7m. The cost of purchased services were EUR5.9m (2016: EUR 9.3m) and decreased compared to prior year. The lower expenses represented cost savings on all levels. Nevertheless, Westwing further pursued its investments in the team and technological infrastructure in 2017. Such investments constitute the basis for adaptable and sustainable business operations.

2.3.2. Financial position of Westwing Group GmbH

As of 31 December 2017, Westwing Group GmbH had EUR 2.2m in cash and cash equivalents (31.12.2016: EUR 4.4m). The movement of cash and cash equivalents can be summarised as follows:

- In 2017, the Company financed the operations of its subsidiaries with EUR 5.7m (2016: EUR 12.7m) through loans, which are deemed to be long-term in economic terms, however are short-term in legal terms. In addition, interest in the amount of EUR 7.3m (2016: EUR 7.9m) was added to the loans. An amount of EUR0.9m was paid back by the subsidiaries.
- In the year 2017, the Company pulled both tranches of the Kreos loan. In total an amount of EUR9.3m was received.
- During 2017 the Company paid an amount of EUR 2.3m as principal and interest to Kreos.
- In 2017, a short-term loan provided by the Italian subsidiary to Westwing Group GmbH amounted to EUR 1.0m (2016: EUR 2.7m).
- In 2017, a short-term loan provided by the Spanish subsidiary to Westwing Group GmbH amounted to EUR 4.0m (2016: nil).
- In 2017, investments in tangible and intangible assets amounted to EUR 4.7m (2016: EUR 2.7m).
- Shares acquired amounting to EUR0.2m in the prior year on the level of the Italian subsidiary were resold within a new management participation program.
- The remaining cash outflow of EUR 5.0m arose from the operations.
- The maturity profile of the liabilities as of the balance sheet date shows liabilities amounting to EUR 20.7m due in the short term, and EUR 8.7m falling due in the medium term.

On 23 March 2018, Westwing Group GmbH and GGC EUR S.À.R.L, an affiliate of Rocket Internet SE, entered into a credit facility agreement amounting to EUR 15.0m and signed an option agreement. The option is accounted for separately, as it is independent from the credit line granted. The value of the option was TEUR 1,047. The first tranche of EUR 5.0m had to be drawn within three months after signature. It was pulled on 19 April 2018. The remaining credit facility can be drawn within 18 months. The loan has a term of three years and is due at maturity including accumulated interest.

Westwing Group GmbH ensured that sufficient liquid funds were available to maintain the business activities of the Company and the Group. Investors were given sufficient notice of any financing activities. Westwing Group GmbH met its payment obligations at all times.

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2.3.3. Total assets of Westwing Group GmbH

As of 31 December 2017, the balance sheet total amounted to EUR 193.9m and represented a lower level than in prior year (31.12.2016: EUR 224.2m). The Company's assets consist primarily of financial assets, current assets and cash and cash equivalents.

The assets of the Company represented from financial assets, receivables and other assets as well as cash and cash equivalents. Current assets amounted to EUR 6.5m (31.12.16: EUR 8.3m) as of the end of 2017. The accounts receivable from affiliated companies declined to EUR1.6m (31.12.2016: EUR1.9m). Cash and cash equivalents decreased to EUR 2.2m (31.12.2016: EUR 4.4m). Bank accounts of Westwing Group GmbH amounting to EUR2.2m were pledged to Kreos based on the loan and option agreements as of 31 December 2017.

The non-current assets consist of fixed tangible assets, intangible assets, financial assets and loans.

In the financial year 2017, the fixed tangible assets increased slightly to EUR 1.5m (31.12.2016: EUR 1.4m). Intangible assets consist of both purchased and internally developed software. In 2017, the net book value increased by EUR 0.3m to EUR 3.8m (31.12.2016: EUR 3.5m).

Based on the decisions to divest the Russian and Brazilian operating companies, the related financial investments decreased by EUR 28.9m. The investments into subsidiaries decreased by EUR 0.3m. The loans provided to subsidiaries disclosed as long-term financial assets were reduced by EUR 28.6m to EUR 178.5m. A total amount of EUR 43.2m of long-term financial assets were impaired in this year. As a compensating impact the receivables from loans and interest increased by EUR 13m.

The liabilities increased from EUR 13.6m in 2016 to EUR 29.4 million in 2017. The increase resulted primarily from the new Kreos loan amounting to EUR 8.1m as of balance sheet date. In addition, the short-term loan provided by the Italian subsidiary increased by EUR 1.0m as well as a short-term loan provided by the Spanish subsidiary increased by EUR 4.0m. Trade payables decreased to EUR 0.2m (31.12.2016: EUR 0.9m). The other liabilities increased to EUR8.8m (31.12.2016: EUR 0.9m) primarily due to the Kreos loan.

As of the balance sheet date, the Company's equity decreased by EUR 46.9m from EUR 209.1m in December 2016 to EUR 162.2m in 2017. The main drivers for this development and the decrease of total assets were the impairment on financial assets of EUR 43.2m. The incurred loss of the year excluding the impairment charges was EUR 4.5m.

In the course of 2017, the equity ratio decreased from 93.3% to 83.7%, which continues to be on a relatively high level.

2.4 Employees

At the end of December 2017, Westwing Group GmbH employed 195 employees (2016: 258). Most of the staff works in the areas administration/IT and marketing.

In December 2017 most staff were employed by the Munich-based legal entities Westwing Group GmbH (205 FTEs) and Westwing GmbH in charge of the DACH business (263 FTEs), as well as the Brazilian entity (255 FTEs).

At Westwing, international diversity is considered an important competitive factor. This international character is expressed in the diverse backgrounds of the employees. At the end of 2017 the Company employed more than 50 different nationalities. Likewise, Westwing sees gender diversity as an important factor. 58% of employees of Westwing Group are female.

For the fulfilment of its vision and the achievement of its objectives, Westwing depends on the knowledge, experience and motivation of all of its employees. Without their enthusiasm and contribution Westwing would be unable to grow and expand. Westwing therefore focuses on investing in the current workforce and extending the workforce as required.

To ensure that its existing employees continue to be well educated for the job and highly motivated to give their best, Westwing invests in employees in multiple ways:

- In monthly 'All Hands' meetings, management informs the employees about latest developments within the Company and about the progress of ongoing initiatives.
- While ad-hoc feedback is provided on an ongoing basis to every employee, the Company also has a formal review process of two feedback conversations per year.
- In addition, there is an anonymous "pulse check" twice a year, where employees can provide feedback on their departments and their team leads.
- Westwing offers internal insight sessions and training courses to its employees to ensure that the right skills are available to move the Company forward. In selected cases, Westwing also offers training with external parties.
- In 2017, an upward feedback process was introduced to support team leads in their professional development and to give employees an anonymous way to provide feedback to their supervisors.

Westwing wants to attract the most talented individuals in various ways. There is a very attractive and appealing career page, constantly advertising the current vacancies. In addition, the recruiting teams post available jobs on well-known job portals and use the services of experienced recruiters for key roles. Westwing also participates in or organizes meet-ups and company visits in order to give a more in-depth introduction to the company as an employer.

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3. Risk and opportunity report

Westwing recognizes that risk is an integral and unavoidable component of its business and is characterized by both threat and opportunity.

The Company fosters a risk-aware corporate culture in all decision-making processes. Through skilled application of high quality risk analysis and management, our staff will exploit risk in order to enhance opportunities, reduce threats, and thus lead to increased value for the business and its stakeholders.

The risk and opportunity report describes the most important risks and opportunities of the Company.

3.1 Risk management system

Westwing is committed to managing all risk in a proactive and effective manner. This requires a customized risk management system to communicate management decisions to all levels within the organization. To support this commitment, risk management is integrated into all business processes at appropriate level.

Management has overall responsibility for the ongoing monitoring and analysis of all known risks. Risk controlling is an integral part of management's approach on how to achieve its strategic objectives and contribute to the long-term growth of the business. Each member of management has the responsibility to identify and monitor all risks in their area, document and track them systematically and ensure that appropriate precautions are taken to minimize any potential adverse impact.

At regular intervals, management discusses all relevant risks and analyzes them according to their probability of occurrence and potential magnitude. For the most significant risks, management agrees whether any additional steps need to be taken to reduce the probability of adverse risk occurrence and any potential impact on the Company.

Management is very open about the risks the Company is facing and regularly communicates them to employees. This increases the awareness for risks and sensitizes staff in all hierarchy levels towards taking risks that could affect Westwing as a whole. Finally, the open culture also encourages employees to come forward with other risks they identify that could have an adverse impact on the Company.

In order to further improve and standardize the company-wide risk management and corporate governance structures, a separate function was created in 2014, encompassing risk management, internal controls and compliance. In the course of risk assessment, Westwing gathers information on potential risks identified locally as well as globally, analyses these risks, and uses them as basis for decision making of the management directors.

3.2 Risk report

As in any company, Westwing faces risks that could threaten its success as a company. These risks can be split into financial risks, strategic and operational risks and technology risks. The current key risks Westwing was exposed to in 2017 are discussed in this section. They were not quantified, as in Westwing's view such discretionary figures do not provide an added value to a qualitative assessment. However, management recognizes that risks can change and therefore there may be other risks currently deemed insignificant, or yet unknown risks that might have a negative impact on the business in the future.

Management is comfortable that existence-threatening risks for the Company in 2018 do not exist. Management believes that it has taken all necessary precautions to address existing risks and reduce their possible impact.

3.2.1 Financial risks

Liquidity risk

A key risk for any company is running out of cash and not being able to meet all its obligations. This risk is increased if a company is loss making and has higher cash outflows than inflows.

Using detailed, monthly rolling cash forecasts comparing expected in- and outflows by country, management is in a position to establish the legal entities' cash needs on a detailed level on an ongoing basis. In order to manage the cash reserves carefully, management uses the cash forecasts to plan its marketing and other investing initiatives.

Westwing's investors are aware and supportive of the Company's current planning and accept the resulting need for financing. Investors receive regular updates on the Company's investing activities and expected cash in- and outflows.

Management believes that at the point of preparing this document, the Company had sufficient cash resources and freely available committed lines of credit to meet all financial obligations of the Company and Group.

The financing of subsidiaries is one of the main tasks of the Company. The ongoing monitoring and implementation of the strategic priorities ensure that the funds granted to subsidiaries as debt or equity can in principle be permanently regarded as recoverable. If the subsidiaries would permanently develop unexpectedly, the possible actions and consequences would have to be evaluated in the future. This risk is being constantly monitored.

In addition, Westwing has historically proven its capability to raise financing through capital increases and external loans in the market as well as to finance itself sustainably via negative working capital in the Group.

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Currency risk

Another financial risk most companies face is currency risk. While the majority of the Company's transactions are in Euro, its operations in markets such as Switzerland, Brazil, Poland and Russia expose Westwing to currency risk from various currencies, including the Swiss Franc, the Brazilian Real, the Polish Zloty and the Russian Ruble. In addition, Westwing entities source globally, including from Asian and US suppliers that mainly invoice in US Dollars.

While Westwing does not actively hedge this risk, its business model provides a certain level of natural hedging as a significant portion of local revenue as well as local costs is generated in the respective local currencies. This provides a natural hedging for the currencies in use in the Company. Westwing is aware of and willing to bear any residual foreign currency exposure from a potential imbalance in intercompany trading between Westwing operating companies.

The translation risk resulting from consolidation of foreign currencies into the financial statements is currently not hedged by Westwing as management does not consider it to be relevant for operations.

Risks associated with the debt and equity financing of subsidiaries

Westwing Group GmbH participates directly in the risks of the subsidiaries, so that the valuation of the debt and financing of subsidiaries might be affected.

3.2.2 Strategic and operational risks of the Westwing Group

Competition

In the future, new companies could enter the Home & Living market with the intention to attract the same customers as Westwing or follow a similar approach. This would increase the competition in the relevant market and pose a risk for Westwing. However, given that Westwing has been operating in this industry for over six years and is a pioneer in the sector, Westwing is THE loved lifestyle brand for Home & Living eCommerce. Compared to a new entrant, Westwing is well positioned and has a certain competitive edge. The size, the customer base (with around 1 million active customers), the international supplier base, logistic competence and customized IT-architecture as well as the know-how of staff imply strong market entry barriers.

In addition, Westwing closely observes the market environment in order to be able to react quickly to potential new competitors.

Lack of customer loyalty

One of the major drivers of Westwing's success is the loyalty of its customers. Reasons for lack of loyalty can be Westwing specific (e.g. bad customer experience) or driven by external factors such as changes in available disposable income or other changes in general spending preferences. The Company offers new products on its website, inspires customers with magazine articles, requests feedback from customers on transactions and speaks with customers directly as part of customer service.

Quality and reputation

A reliable and high-quality delivery of goods leads to satisfied customers. In the long-term, high customer satisfaction increases the probability that customers place another order. Delays, delivery cancellation and product damages can have a negative long-term effect on Westwing and consequently pose a risk.

Westwing enjoys the highest reputation and great loyalty among its customers, also because of Westwing's excellent Customer Service Center. This contributes to a satisfying shopping experience. To address this risk, Westwing maintains close relationships with its suppliers to reduce the number of issues in the supply chain, Westwing works very closely with all suppliers to ensure the best possible delivery quality. While this joint effort to improve quality is certainly the preferred approach, Westwing also legally protects itself against quality or delivery issues in its supplier contracts.

Westwing's warehouse staff are trained to check the quality of each product being delivered, and these quality checks are part of the inbound inventory process in each warehouse in order to avoid products of low quality being sent to customers. In addition, internal processes are constantly checked and if necessary adjusted to ensure quality control.

Logistics

One of the critical success factors for Westwing is its logistics capabilities. Any interruption of logistics processes, e.g. due to IT systems failure, improper planning, physical damage or problems with warehouse management service providers may have an immediate impact on logistics costs and impair customer satisfaction due to delayed deliveries.

In order to address these risks, Westwing has invested in its international logistics network with eight local logistics centers and continued standardization of processes and systems. Customized or proprietary tools such as the Warehouse Management System and Partner Portal software mentioned above play a critical role in setting up stable and scalable operations as well as de-risk processes. In addition, the Company has established stable business relationships with its service providers, including systematic performance monitoring. Westwing's ongoing improvement initiatives in operations also materialized in improved delivery quality.

Loss of key employees and hiring

Westwing depends on the knowledge, experience and motivation of its key employees to implement its vision and reach its goals. Without their enthusiasm and contribution, Westwing would be unable to advance the business. Key employees might leave the Company, which could have a negative impact on the Company's success.

In addition, the Company faces the risk of not being able to hire the right employees when needed, due to a shortage of suitable professionals on the labor market or not being able to attract those professionals to join Westwing.

To ensure Westwing's attractiveness as an employer, the Company has developed the necessary structures so that all employees have the opportunity to fulfill their career goals, e.g. leadership development programs, in-house and external trainings, regular feedback and evaluation rounds and employee surveys.

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3.2.3 IT risksWebsite downtime

As an online retailer, Westwing is dependent on the functionality of hardware and software. If the website is unavailable, customers cannot place orders. This cannot only affect revenues in the short-term, but also has long-term consequences for customer satisfaction in the event of a repeated system failure and thus for the entire business.

Westwing has multiple systems and solutions in place to avoid this and to minimize the amount of time the website is not available. These solutions include detailed monitoring of website performance and on-site and off-site back-up solutions.

Because of these checks and back-up solutions, the website was online and functional with an average company-wide uptime of more than 99.95% during the 2017 fiscal year.

Data security

As any other company with an online presence and especially companies where customers make payments online and submit personal information, Westwing faces the risk that data security is compromised. When placing orders on the website, customers submit their addresses to Westwing and payment details such as bank account or credit card information to Payment Service Providers through the Westwing interface. This sensitive customer information is subject to extensive data protection regulations.

Keeping customer data secure is very important to Westwing and management has implemented various processes to fulfil its duty to keep such data secure. Most importantly, Westwing does not store any customer payment details itself. For the payment component of customer transactions, Westwing works with PCI-certified companies that specialize in such transactions.

In addition, access rights to Westwing's servers are very restricted and only selected persons have personalized access to the system. All changes to the front-end software are mapped out on a test server before going live so that programming errors and security gaps in the development process are detected at an early stage. Finally, Westwing works with up-to-date encryption algorithms, VPN-connections and authentication to prevent unauthorized access by external parties to the systems.

Technological progress and user experience

Westwing's sales are internet-based and internet technology is changing rapidly. One of the main technological developments of the last years was migrating a selection of Westwing's systems to cloud infrastructure providers. With the help of cloud based infrastructure, Westwing can grow the business and provide better availability of the website, often offering faster customer experience. However, some residual risk remains that Westwing's system are not up to date with current technological developments. Misconfiguration could lead to an inadequate customer experience, resulting in fewer visits and decrease in sales as a consequence.

The risk cannot be ruled out that intangible assets under development have to be impaired in the future.

3.2.4 Risks arising from the use of financial instruments

In 2016 and 2017, Westwing did not acquire or sell any financial instruments that are subject to significant risks. The Company does not use derivative financial instruments for hedging of cash flows or fair values. The Kreos option agreements related to the loan regarding equity instruments does not imply a risk for the Company.

3.3 Opportunities

While Westwing faces several risks, there are also many opportunities for the Company that have great potential to drive it further forward. Not only will they provide Westwing with the possibility of growth, they will also facilitate improved profitability. Such opportunities can generally be grouped into two sections: (1) external opportunities such as market growth and (2) internal opportunities, such as strengthening the brand and expanding into new sectors. The following chapter summarizes the primary opportunities.

3.3.1 Overall external economic opportunities

One of the key opportunities for Westwing is the growth in eCommerce compared to traditional high-street focused business in the Home & Living market. The expectation is that online-based trading in this sector will grow significantly faster than offline business. Management believes this trend is due to the following factors:

- Improved product offering: eCommerce is generally better positioned to offer its customers an attractive and varied product offering. Westwing is not bound by store size constraints when it comes to offering customers products and can therefore go far beyond the range compared to what a high-street shop could offer its customers.
- Round-the-clock availability of products: For many customers, the visit to a traditional high-street Home & Living (especially furniture) shop that meets their needs is very time consuming. More and more people therefore turn to online shopping. The increased simplification and reduced time required in the process of buying Home & Living products online increases the likelihood of an initial purchase by the any given potential customer.
- Improved logistics and payment processes: Improvements in the quality of delivery services and payment options are crucial drivers of the positive development of eCommerce business. Having more options and choice in terms of when products are delivered and how the customer pays for them increases customer satisfaction and therefore increases chances of repeat business. While Westwing is already exceptionally well positioned in terms of delivery and payment options, this is another area identified where further opportunities exist.
- As mentioned above, more and more B2C (“Business to Consumer”) transactions are happening online and consequently more and more customers are becoming accustomed to making purchases online. While this shift commenced with more obvious industries like books and fashion, it has now expanded to the Home & Living market, which offers great opportunities for Westwing.

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- Increasing number of customers: Online shopping first targeted the younger generations, which felt more comfortable with computers and the concept of placing orders online. However, this trend has been changing, and the age range of potential customers has been increasing steadily. These days, many of Westwing's customers are among the older generation and management expects this trend to continue. The increased trust with online transactions will attract more and more people to eCommerce companies and will increase Westwing's potential customer base.

3.3.2 Strategic and operational opportunities

Private Label

Besides offering products from its large supplier base, Westwing also offers an increasing number of products under its own brand names. Management believes that there is great potential in this area and is actively investing in this business to expand it further. Private Label is currently set up in a way to manage the entire purchasing process centrally and then sell the acquired products within the Company.

Specifically, management sees two key advantages in the Private Label business:

- Firstly, Westwing is able to tailor the design, packaging, price point, quality and branding of its products. Westwing is in direct contact with the manufacturers of the products and closely aligns product designs and materials used. This opportunity to directly influence the attributes of products sold enables Westwing to present a curated and well-rounded assortment on its website.
- Secondly, as there is no requirement for an intermediary, the margins Westwing can achieve on the sale of Private Label products are usually higher than for products from its other suppliers.

Westwing's dedicated Private label team is driving this business forward from Westwing's headquarters in Munich.

Brand

Westwing is THE loved lifestyle brand for Home & Living eCommerce. Management sees Westwing's strong brand and brand recognition as an important factor for long-term success. By focusing on PR, content creation, social media and applying carefully selected marketing initiatives, Westwing presents itself as a brand that values quality, style and inspiration and that transmits confidence, trust and personality to its customers. Unlike other industries such as fashion, where the customer focus is primarily on supplier brands, in the Home & Living industry the retailer brand is increasingly important. This is driven by the fact that in Home & Living the supplier universe is very fragmented and the supplier brands as such are in many cases not the key driver for customers' purchasing decision.

Mobile eCommerce

While eCommerce as a whole is growing at a fast pace, its subsector mobile eCommerce is growing even faster. When referring to mobile eCommerce, Westwing means business on handheld devices instead of desktops or other stationary devices. Management believes that an increasing number of transactions will be conducted on mobile devices in the future as it further increases customer flexibility.

Westwing is well equipped for this trend, as it has developed smartphone-optimized and tablet-optimized sites as well as dedicated apps for iPhone, iPad and Android devices. These devices have been so well-received by its customers that in 2017, more than 56% of Westwing's orders are now concluded on mobile devices.

Margin improvement

An additional opportunity for Westwing is the improvement of its margins. Given the fact that Westwing is still a relatively young company and still improving its processes and infrastructure, management believes that it can make its processes more efficient and reduce complexity in the future, resulting in better margins. Among other factors, areas for improvement are identified by internal best practices within the group by referring to market practice and learning from peers.

Specific areas driving margin improvement include, but are not limited to:

- **Key supplier account management:** Westwing will further improve the good arrangements and relationships with its suppliers so that operational processes are streamlined and purchase conditions are improved.
- **Product-mix and pricing:** The correct product mix is important and Westwing constantly reviews its own, to improve customer inspiration and satisfaction, while maintaining attractive margins. Furthermore, intelligent pricing provides further opportunities.
- **Logistics processes:** Westwing operates dedicated logistic centers in seven markets and has already implemented its customized warehouse management system in four, while work continues to prepare roll-out to the remainder. This shows that Westwing has made great progress in its logistics processes. In addition, further potential for improvement exists to increase customer experience and margin due to scale: Given that all large markets have a local logistics set-up with warehouse and overhead structure, fixed cost utilization will play a major role going forward to improve margins.
- **Economies of scale:** A key factor in improving margins are economies of scale. As sales grow, areas beyond logistics will also experience economies of scale as costs are anticipated to increase at lower rate relative to growth in revenue.

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4. Outlook for the Westwing Group

The forecast for Westwing Group GmbH is substantially the same as for the Westwing Group.

Management considers the business environment and the development of the financial and economic position of Westwing and the market in 2017 as positive. Key initiatives for sustainable EBITDA profitability have been successfully completed. After a comparatively weaker first half of the year, the Company gained growth momentum in the second half and closed the year as forecasted with a significantly improved operating profitability. Westwing has proved itself as a successful, integrated Home & Living company, with Westwing being a well-known and loved lifestyle brand on the market.

The Group is sufficiently financed and has built solid structures and processes, which will further support future growth and enabling the path to overall profitability. As in the previous year, the fourth quarter was again profitable in respect of the operating result (Adjusted EBITDA¹³) and free cash flow, partially supported by the seasonality towards year-end. Management expects Westwing to further continue the improvements of the essential KPIs in 2018.

The positive development of the online Home & Living market is assumed to continue in 2018. This expectation is based on the relevant geographical markets observed in the last few years. Furthermore, management expects ongoing shifts from the offline to the online Home & Living market.

Westwing has a unique competitive position in all of its markets and a strong position in the important mobile channel, with orders placed via mobile channels already reaching 56% of total orders. Management expects that this will support continued growth.

For the year 2018, Westwing plans further improvements.

In order to achieve this, key priorities are set in the following areas:

- Expanding the successful business model from the DACH region to the international Westwing markets: ensure ongoing excellence in merchandizing, introduce more fresh trends and attractive brands.
- Increase the share of private label products, where Westwing is able to influence the design and achieve high margins.
- Investment in growth platforms in the areas of marketing, and in technology and infrastructure.

For 2018, management expects a slightly higher revenue growth rate compared to that realized in 2017, showing high single-digit to lower double-digit growth again on a comparable basis.

Gross merchandise volume ('GMV') and total orders are expected to grow in line with revenue. The average order value is planned to remain stable at the level observed throughout 2017, growth will primarily be achieved by higher share of wallet from existing customers and enlargement of the customer base.

¹³ EBITDA before share-based payment serves as a performance indicator allowing a better evaluation of the course of the business.

Increasing revenue and strengthened contribution margins shall be the base for a further improvement of KPIs. Despite the focus on profitability, management will continue to invest in strategic priorities such as technology and brand development.

Management anticipates that operating costs in 2018 can be covered by operating cash flow, available credit lines and potential additional cash inflows. The development of free cash flow (i.e. sum of cash flows from operating and investing activities) will reflect the improvement and relatively stable investing activities.

Westwing Group GmbH expects for the financial year 2018, driven by its activities as a holding company for the Westwing Group, a slightly increased revenue level compared to prior year reflecting the expected higher business volume of the operating subsidiaries. Since most operational subsidiaries incur a negative result before taxes, the Company expects unchanged a level of income on a similar level to the previous year excluding any possible impairment charges.

As projected in the prior year, Westwing Group GmbH fulfilled overall the prior year expectations. The revenue was slightly lower, since less costs were incurred and correspondingly charged out. The expected level for income for the year was met, if the impairment charges were excluded. The loss of the year was about EUR -4.1m excluding the impairment charges, improved slightly and was similar to the level of the prior year with EUR -4.5m.

Management is convinced that Westwing has the necessary operational and financial resources to realize the planned outcomes for 2018.

Munich, 2 July 2018
Westwing Group GmbH

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