Westwing Group GmbH

Berlin

Consolidated Financial Statements and Group Management Report

31 December 2016

Westwing Group GmbH
Berlin

Consolidated Financial Statements

31 December 2016

Translation from the German language

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Consolidated Income Statement

For the period from 1 January to 31 December 2016 and 2015

TEUR	Notes	2016	2015
Revenue	4	250,372	219,194
Cost of sales		(144,081)	(126,617)
Gross profit		**106,291**	**92,578**
Fulfilment expenses		(65,698)	(69,628)
Marketing expenses		(18,000)	(31,491)
General and administrative expenses		(42,431)	(48,262)
Other operating expenses	7	(1,570)	(1,450)
Other operating income	7	942	951
Operating result		**(20,466)**	**(57,302)**
Finance costs	8	(6,147)	(1,852)
Finance income	8	65	10
Other financial result	8	2,032	(2,374)
Financial result		(4,050)	(4,215)
Result before income tax		**(24,516)**	**(61,517)**
Income tax expense	25	(392)	(166)
Result for the year		**(24,908)**	**(61,683)**
Loss attributable to:			
Owners of the Company		(22,944)	(53,079)
Non-controlling interests		(1,964)	(8,604)
Result for the year		**(24,908)**	**(61,683)**

Consolidated Statement of Comprehensive Income

For the period from 1 January to 31 December 2016 and 2015

TEUR	**2016**	**2015**
Result for the year	**(24,908)**	**(61,683)**
Other comprehensive income:		
Items that subsequently will be reclassified to the income statement:		
Exchange translation differences of foreign operations	(2,787)	3,167
Other comprehensive income for the year, net of tax	**(2,787)**	**3,167**
Attributable to:		
Owners of the Company	(2,373)	2,692
Non-controlling interests	(414)	475
Total comprehensive loss for the year	**(27,695)**	**(58,516)**
Attributable to:		
Owners of the Company	(25,317)	(50,387)
Non-controlling interests	(2,378)	(8,129)
Total comprehensive loss for the year	**(27,695)**	**(58,516)**

Consolidated Statement of Financial Position

TEUR	Notes	31/12/2016	31/12/2015	01/01/2015
Assets				
Non-current assets				
Property, plant and equipment	9	6,494	6,104	5,348
Intangible assets	10	3,632	2,608	1,489
Trade and other receivables	11	3,457	2,467	1,278
Total non-current assets		**13,583**	**11,179**	**8,115**
Current assets				
Inventories	12	18,728	14,722*	12,339*
Trade and other receivables	11	6,921	5,763	9,857
Other assets	14	1,844	2,645	1,731
Cash and cash equivalents	13	17,899	18,674	20,699
Total current assets		**45,392**	**41,803**	**44,626**
Total assets		**58,975**	**52,982**	**52,741**
Equity/(deficit)				
Share capital	15	92	92	81
Treasury shares	15	(998)	-	-
Share premium		210,343	210,343	155,111
Other reserves	15	17,765	17,279	13,661
Retained earnings		(240,758)	(216,262)*	(162,668)*
Other comprehensive income (OCI) reserve	15	6,840	9,138	6,554
Equity/(deficit) attributable to the owners of the Company		**(6,717)**	**20,589**	**12,739**
Non-controlling interests		(32,996)	(33,241)*	(27,619)
Total equity/(deficit)		**(39,713)**	**(12,652)**	**(14,880)**
Non-current liabilities				
Borrowings	17	-	-	1,708
Finance lease liabilities	19	-	-	1,365
Other liabilities	18, 20	37,501	10,542	11,696
Provisions	21	337	296	296
Total non-current liabilities		**37,838**	**10,837**	**15,065**
Current liabilities				
Borrowings	17	-	1,708	3,249
Finance lease liabilities	19	-	-	268
Trade payables and accruals	20	38,720	34,116*	31,522*
Customer prepayments	20	10,400	9,115	9,898*
Other liabilities	20	10,181	8,331	6,240
Provisions	21	1,548	1,527	1,378
Total current liabilities		**60,849**	**54,796**	**52,556**
Total liabilities		**98,687**	**65,634**	**67,621**
Total equity and liabilities		**58,975**	**52,982**	**52,741**

*Prior year figures have been adjusted in accordance with IAS 8, refer Note 2.3 in the notes.

Consolidated Statement of Changes in Equity

		Attributable to the owners of the Company								
TEUR	Notes	Share capital	Share premium	Treasury shares	Other reserves	Retained earnings*	Other comprehensive income (OCI) reserve	Total	Non-controlling interests	Total equity
As at 1 January 2015		**81**	**155,111**	**-**	**13,661**	**(162,668)**	**6,554**	**12,739**	**(27,619)**	**(14,880)**
Result for the year		-	-	-	-	(53,079)	-	**(53,079)**	(8,604)	**(61,683)**
Other comprehensive income for the year		-	-	-	-	-	2,692	**2,692**	475	**3,167**
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**(53,079)**	**2,692**	**(50,387)**	**(8,129)**	**(58,516)**
Issue of share capital	15	11	55,232	-	-	-	-	**55,243**	-	**55,243**
Share-based compensation	16	-	-	-	3,596	-	-	**3,596**	1,867	**5,464**
Acquisitions / disposals of non-controlling interest / other		-	-	-	22	(515)	(109)	**(602)**	640	**38**
As at 31 December 2015 / 1 January 2016		**92**	**210,343**	**-**	**17,279**	**(216,262)**	**9,138**	**20,589**	**(33,24)**	**(12,652)**
Result for the year		-	-	-	-	(22,944)	-	**(22,944)**	(1,964)	**(24,908)**
Other comprehensive income for the year		-	-	-	-	-	(2,373)	**(2,373)**	(414)	**(2,787)**
Total comprehensive income for the year		**-**	**-**	**-**	**-**	(22,944)	(2,373)	**(25,317)**	**(2,378)**	**(27,695)**
Issue of share capital	15	-	-	-	-	-	-	**-**	-	**-**
Transaction with treasury shares		-	-	(998)	-	-	-	**(998)**	-	**(998)**
Share-based compensation	16	-	-	-	2,567		-	**2,567**	189	**2,756**
Acquisitions / disposals of non-controlling interest / other		-	-	-	(2,081)	(1,551)	76	**(3,557)**	2,434	**(1,123)**
As at 31 December 2016		**92**	**210,343**	**(998)**	**17,765**	**(240,758)**	**6,840**	**(6,717)**	**(32,996)**	**(39,713)**

*Prior year figures have been adjusted in accordance with IAS 8, refer Note 2.3 in the notes

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Westwing Group GmbH
Consolidated Financial Statements

Consolidated Statement of Cash Flows

TEUR	Notes	2016	2015
Cash flows from operating activities:			
Result before income tax		(24,516)	(61,517)
Adjustments for:			
Depreciation and impairment of property, plant and equipment	9	1,630	1,744
Amortization and impairment of intangible assets	10	1,046	972
Loss/(gain) on disposal of property, plant and equipment		(7)	79
Share-based compensation expenses	16	4,011	4,641
Fair value loss on financial liabilities		33	4
Finance income	8	(65)	(10)
Finance costs		6,114	1,847
Result from closure of subsidiary		-	(329)
Foreign currency effects		(1,958)	2,356
Other cash related adjustments		(1,260)	-
Changes in provisions and pensions		(194)	234
Cash effective operating loss before changes in working capital		(15,166)	(49,979)
Adjustments for changes in working capital:			
Changes in trade and other receivables and prepayments		327	1,248
Changes in inventories		(3,288)	(3,113)*
Changes in trade and other payables		4,688	6,608*
Cash used in operations		**(13,459)**	**(45,237)**
Interest received		65	10
Interest and other finance charges paid		(1,281)	(1,847)
Tax paid		(392)	(315)
Net cash flows used in operating activities		**(15,068)**	**(47,390)**
Investing Activities:			
Proceeds from sale of property, plant and equipment		52	14
Purchase of property, plant and equipment		(1,681)	(2,842)*
Security deposits paid		(860)	-
Purchase of intangible assets		(2,085)	(2,000)
Net cash flows used in investing activities		**(4,574)**	**(4,828)***
Financing activities:			
Proceeds from shareholder funding		-	55,240
Proceeds from financing round		23,068	-
Sale/(Purchase) of minority interests		(1,850)	-
Proceeds/(Repayment) of borrowings		(1,708)	(3,249)
Payments of finance lease liabilities		-	(1,694)*
Purchase of treasury shares		(998)	-
Net cash flows from financing activities		**18,513**	**50,297***
Net change in cash and cash equivalents		**(1,130)**	**(1,920)**
Effect of exchange rate fluctuations on cash held		355	(105)
Cash and cash equivalents at 1 January	13	18,674	20,699
Cash and cash equivalents at 31 December		**17,899**	**18,674**

*Prior year figures have been adjusted in accordance with IAS 8, refer Note 2.3 in the notes.

1. General information

The consolidated financial statements of Westwing Group GmbH (referred to as the “Company” or “Westwing”) and its subsidiaries (together referred to as the “Group”) for the financial year ended 31 December 2016 were authorized for issue by management to the shareholders meeting on 29 March 2017.

The Group is one of the leading eCommerce companies in the home & living sector. The first and largest business activity is the operation of an eCommerce shopping club offering members high-quality furniture and accessories. From February 2015 Westwing has also operated the new online shop WestwingNow, which offers products on a permanent basis.

The Company was incorporated in 2011 and is registered at Berlin District Court, Germany, under the number HRB 136693. The company is headquartered in Moosacher Str. 88, 80809 Munich, Germany (formerly: Dingolfinger Str. 2, 81673 Munich). As at 31 December 2016, the Group operated in 14 countries (Germany, Austria, Switzerland, Italy, Brazil, Spain, the Netherlands, France, Poland, Russia, Belgium, Kazakhstan, Czech Republic and Slovakia) and consisted of 28 legal companies, all of which are consolidated in these financial statements.

2. Summary of significant accounting policies

2.1. Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) and Interpretations (IFRIC) applicable as at the reporting date, as adopted by the EU, and in accordance with the provisions applicable under German Commercial law as defined in Section 315a German Commercial Code (Handelsgesetzbuch, ‘HGB’).

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented. Changes to accounting standards which were mandatorily first applied during the 2016 financial year had no impact on the financial statements.

The consolidated financial statements have been prepared under the historical cost convention, except for financial assets and financial liabilities (including derivative instruments) measured at fair value through profit or loss.

The Company presents its consolidated income statement classifying expenses by function.

The consolidated statement of financial position is classified based on the maturity of assets and liabilities. Assets that are used or settled within a normal cycle of business operations, are held for the purpose of trading or are expected to be realized within twelve months from balance date are classified as current. Assets not meeting this criteria are classified as non-current.

Liabilities are classified as current where they are expected to be settled in a normal cycle of business operations, within twelve months or where there is no unconditional right to defer settlement beyond twelve months. All other liabilities are classified as non-current.

The financial year comprises one calendar year. The consolidated financial statements are presented in Euros and all values are rounded to the nearest thousand (TEUR), except indicated otherwise. The values in the consolidated financial statement have been rounded according to commercial principles. Therefore, the sum of a table may not exactly be the same as the addition of the individual numbers. The balances in the consolidated statement of cash flows are based on actual cash flows for the period.

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

2.2. New standards, amendments and interpretations

The following standards and interpretations have been issued at the reporting date but are not yet effective. The assessment of the impact of these standards and interpretations on the Group is set out below.

		IASB Mandatory application	Adoption by the EU by 31/12/2016	Expected Effects
IFRS 15	Revenue from Contracts with Customers	1/1/2018	Yes	No significant effects
IFRS 9	Financial instruments (July 2014)	1/1/2018	Yes	No significant effects
IFRS 16	Leases	1/1/2019	No	Major effects (details see below)
IAS 12	Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealized Losses	1/1/2017	No	No significant effects
IAS 7	Amendments to IAS 7: Disclosure Initiative	1/1/2017	No	No significant effects
IFRS 2	Classification and Measurement of Share-based Payment Transactions	1/1/2018	No	No significant effects

IFRS 15 'Revenue from contracts with customers' was issued in May 2014 and establishes a new five-step process for revenue recognition applying to revenue arising from contracts with customers. Under IFRS 15 revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS (IAS 18 Revenue, IAS 11 Construction Contracts, IFRIC 13 Customer Loyalty Programs, IFRIC 15 Agreements for Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers and SIC 31 Revenue-Barter Transactions). Currently, either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted. The Group has assessed the impact of IFRS 15 on the financial statements. Westwing trades directly with end customers in short term, simple, single component transactions. Additionally Westwing already splits its revenue into its single parts. As a result the Group does not expect a significant impact on the financial statements. The Group plans to adopt the new standard on the required effective date using the modified retrospective approach.

IFRS 9 'Financial instruments' was issued in July 2014, replacing IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. The Group has assessed the impact of IFRS 9 and does not expect a significant impact on the financial statements, based on the short-term business with end customers and the lack of complex derivative financial instruments and equity instruments. The Group plans to adopt the new standard on the required effective date.

IFRS 16 'Leases' was issued in January 2016 and will eventually replace IAS 17 as well as all related interpretations. According to the new standard leases that represent the right to use an asset result in the recognition of an asset and a corresponding leasing liability for the lessee. In the income statement the right to use an asset is presented as a financing activity. The right to use an asset is subsequently depreciated on a straight-line basis and shown separately from the interest on the lease liability, which results from the measurement of the lease liability at amortized cost using the effective interest method. IFRS 16 allows for exemptions from the above accounting treatment for short-term leases up to 12 months as well as for leases of low value assets with a value of up to USD 5,000. Exempt leases can be accounted for in accordance with the current operating lease methodology. IFRS 16 is effective for annual periods beginning on or after 1 January 2019, however early application is permitted if IFRS 15 is already applied at such time. IFRS 16 is not yet adopted by the EU. The Group has assessed the impact of IFRS 16 on the financial statements and expects the following outcomes:

- Increase of the value of assets and liabilities on the balance sheet by a low to mid double digit million Euro amount
- Recognition of interest expense in a low single-digit million Euro amount
- Recognition of amortization in a low to medium single-digit million Euro amount
- Disclosure of the leasing redemption component in a medium single-digit million Euro amount

The Westwing Group plans to adopt the new standard on the required effective date.

2.3. Change in reporting and adjustment of figures for the previous year according to IAS 8

In the 2016 financial year it became apparent that in certain instances the recording of certain sales, inventory and liabilities in a local affiliate was incorrect and not fully complete in the published consolidated financial statements for the year ended 31 December 2014. As a result the opening balance of related accounts and comparable figures of the year 2015, as disclosed in the financial statements for the year ended 31 December 2015 were not correct. The information from the previous year has been adjusted in the financial statements in accordance with IAS 8.41 ff.

Resultantly, in accordance with IAS 8.42, the identified instances were reported and adjusted in deviation from the published consolidated financial statement as at 31 December 2014 and the opening balance sheet for the comparative period as at 1 January 2015. As shown in the table below, this has resulted in changes in equity and single balance sheet items in the consolidated financial result for the 2015 comparative period. There was no impact on the 2015 net result.

TEUR	1 January 2015	31 December 2015
Inventory	(265)	222
Current assets	(265)	222
Total assets	**(265)**	222
Retained earnings	(913)	(913)
Equity	***(913)***	***(913)***
Trade payables and accrued liabilities	809	1,135
Advance payments from customers	(162)	-
Current liabilities	***648***	***1,135***
Total equity and liabilities	**(265)**	**222**

Furthermore, in the cash flow statement for the 2015 financial year TEUR 1,542 was reclassified from cash flow from investing activities to cash flow from financing activities. This cash outflow related to the early purchase of leased warehouse equipment which must be shown as financing cash flow in accordance with IAS 7.17.

2.4. Consolidation

2.4.1. Scope of consolidation

The consolidated financial statements incorporate the financial statements of Westwing and entities controlled by Westwing (“subsidiaries”). Consequently, all companies in which the Company holds a controlling interest are fully consolidated in the financial statements.

As at 31 December 2016, The Company controls 20 domestic subsidiaries (2015: 20), as well as maintaining indirect control of seven foreign subsidiaries (2015: seven). The composition of and changes to the Group are detailed in Note 28.

The annual financial statements of the Company and its subsidiaries are prepared under uniform accounting standards. Where necessary, the accounting policies of subsidiaries have been changed to align them to the policies adopted by the Group. The financial statements of the Company and its subsidiaries are prepared as at the reporting date of these consolidated financial statements. Intercompany receivables, liabilities and results between Group companies are eliminated during the consolidation process.

2.4.2. Subsidiaries

Subsidiaries are those entities over which the Group has control. Control exists when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to govern the relevant activities of the entity. Subsidiaries are fully consolidated from the date that control commences to the date that control ceases.

2.4.3. Non-controlling interests (NCI)

If an acquirer acquires less than 100% of shares in an acquiree there is a non-controlling interest. Non-controlling interest is the equity in a subsidiary that is not attributable, directly or indirectly, to a parent.

Non-controlling interests can be measured either at fair value (full goodwill method) or at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets (partial goodwill method).

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity.

2.4.4. Disposal of subsidiaries

When the Group ceases to have control of a subsidiary, the gain or loss on disposal is calculated as the difference between the proceeds from the sale less the subsidiary´s net assets and NCI. Any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss.

2.5. Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Euro, which is the Group's presentation currency.

Transactions and balances

Foreign currency transactions are recorded in the local functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the revaluation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognized in other financial result in the consolidated income statement.

Group companies

The results and financial position of all Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities of foreign operations are translated at the closing rate as at the balance sheet date;
- income and expenses of foreign operations are translated at cumulative average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognized in other comprehensive income in equity. On disposal of a foreign operation, the related component of OCI is recognized in the consolidated income statement.

The most significant currencies for the Group were translated at the following exchange rates:

Value of EUR 1	Assets and liabilities Spot rates		Income and expenses Cumulative average rates	
	31/12/2016	**31/12/2015**	**2016**	**2015**
Brazilian Real	3.43	4.31	3.86	3.74
Russian Ruble	64.30	80.67	74.22	68.77
Polish Zloty	4.41	4.26	4.36	4.18

2.6. Revenue recognition

Westwing generates revenue primarily from the sale of goods through its retail website. Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of promotional discounts, marketing vouchers, rebates and return allowances. Revenue is recognized net of value added taxes. The Group recognizes revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when the risks and rewards of the inventory have passed, which is generally when the goods have been delivered. In most cases the customer pays upon placing their order online, and as such the amount paid is recognized as deferred income until final delivery of the products. The amount deferred as at 31 December 2016 is shown separately in the statement of financial position and is referred to as advance payments from customers.

The risk of return from customers is captured in the return provision, which is estimated based on past experience in respect of return rates and time lag. The return provision is recorded against revenue and cost of sales.

2.7. Expenditure

Cost of sales primarily consists of the purchase price of consumer products and inbound shipping charges.

Fulfilment expenses include postage, freight, packaging and handling costs as well as fees in respect of payment services. In addition, fulfilment expenses include personnel expenses, warehouse rent, depreciation and other expenses in respect of the logistics, customer care, supply chain, buying and sourcing functions of the Group.

Marketing expenses consist of costs for online and offline marketing or promotional activities. Also included are expenses for personnel, other operating expenses and depreciation in respect of the marketing function of the Group.

General and administrative expenses consist of personnel expenses, rent and utilities, and depreciation in respect of the technology, campaign and content production and administrative functions of the Group. General and administrative expenses also include consulting and other professional and legal fees including external accounting, recruiting, tax consulting and audit fees.

Included within other operating income and expenses are primarily rental income and the costs incurred when providing for bad debt on accounts receivable.

Included within the financial result are interest income, interest and other financial expenses, and foreign exchange gains and losses within the other financial result.

2.8. Property, plant and equipment

The main components of property, plant and equipment are furniture, fittings, equipment and leasehold improvements.

Property, plant and equipment are stated at cost less accumulated depreciation and provision for impairment, where required. Historical costs include expenditure directly attributable to the acquisition.

Costs of minor repairs and maintenance are expensed when incurred. Costs of replacing major parts or components of property, plant and equipment are capitalized.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognized in the consolidated income statement.

Depreciation on items of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

Asset	**Useful lives in years**
Furniture, fittings and equipment	2 to 15
Computers and printers	2 to 5
Telecommunication (mobile phones, copy, fax)	2 to 5
Hardware (servers)	5 to 7
Office furniture	10 to 13
Warehouse equipment and fixtures	10 to 15
Cars and other vehicles	3 to 8
Leasehold improvements	Shorter of useful life or the term of the underlying lease
Assets under finance lease	Shorter of useful life or the term of the underlying lease

The residual value of an asset is the estimated amount that the Company would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Included within property, plant and equipment are amounts that have been prepaid for items of property, plant and equipment. Such amounts are not subject to depreciation.

2.9. Intangible assets

2.9.1. Purchased trademarks, brands, licenses and software

Separately acquired trademarks, brands, software and licenses have a finite useful life and are shown at cost less accumulated amortization and provision for impairment, where required.

Acquired computer software licenses, domains, trademarks and brands are capitalized on the basis of the costs incurred to acquire them and bring them to use, including cost for further development of software for which licenses had been acquired.

Furthermore, intangible assets also include prepayments on items that are classified as intangible assets. Such amounts are not subject to amortization.

2.9.2. Internally generated software

Research and development costs are expensed as incurred, except for development costs which can be capitalized.

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

- it is technically feasible to complete the software product so that it will be available for use;
- 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;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

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 recognized as expenses as incurred. Development costs previously recognized as expenses are not recognized as an asset in a subsequent period.

2.9.3. Amortization

Amortization is calculated using the straight-line method to allocate the cost of trademarks, brands, software and licenses over their estimated useful lives:

Asset	Useful lives in years
Internally generated software	3
Acquired software and licenses	2 to 5
Trademarks	15 years or the life of the trademark agreement (if shorter)

2.9.4. Impairment of property, plant and equipment and intangibles

Whenever events or changes in market conditions indicate that the carrying amount of property, plant and equipment or intangibles may not be fully recoverable, the assets are tested for impairment. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of the fair value less costs to sell and value in use. For the purposes of assessing impairment, assets grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Prior impairments are reviewed for possible reversal at each reporting date.

2.10. Leases

The Group leases certain items of property, plant and equipment. Leases of property, plant and equipment, where the Group has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest over the remaining balance of the liability. The interest element is charged as finance costs to the income statement. The assets acquired under finance leases are depreciated over their respective useful lives. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Leases for which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Operating lease payments (net of any incentives received from the lessor) are recognized as operating expenses in the income statement on a straight-line basis over the lease term.

As at 31 December 2016, the Group did not have any finance leases.

2.11. Inventories

Inventories are recorded at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale.

The cost of inventory includes purchase costs and costs incurred to bring the inventories to their present location and condition.

Write-downs to the net realizable value are made if, at period-end, the carrying amounts of the inventories are above their realizable fair values. In order to represent the value of inventories appropriately in the statement of financial position and to take into account impairment losses due to obsolete or damaged stock and slow moving inventory, inventory write off provisions have been calculated and are deducted from the carrying amount of the inventories to show the net amount in the statement of financial position.

Inventory as shown in the statement of financial position consists of finished goods purchased from uppliers and prepayments made for future inventory deliveries.

2.12. Financial assets

The classification of a financial asset depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. All of the Group’s financial assets are classified as loans and receivables.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for assets with maturities greater than twelve months after the end of the reporting period. These are classified as non-current assets. The Group’s financial assets comprise ‘Trade and other receivables’ and ‘Cash and cash equivalents’ (Notes 11 and 13).

Financial assets are recognized at their fair value including directly attributable transaction costs. Subsequently they are measured at amortized cost using the effective interest method.

Financial assets are derecognized when the rights to receive cash flows have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

2.13. Impairment of financial assets

The Group makes an assessment at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Where recovery is in doubt, an allowance is made against the specific financial asset and the loss is recognized in the consolidated income statement. Once the Group believes the amount to be irrecoverable, the financial asset is written off.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced by the impairment, the impairment loss is recognized in the statement of profit and loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the consolidated income statement.

2.14. Financial liabilities

The classification of financial liabilities depends on the nature and purpose of the liability and is determined by management at initial recognition.

Financial liability at fair value through profit or loss

A financial liability at fair value through profit or loss is initially recognized at fair value on the commencement date of the contract and is subsequently re-measured to its fair value. Any changes to the instrument´s fair value are recognized directly through the consolidated income statement. When referring to financial liabilities at fair value through profit and loss, IAS 39 differentiates between held-for-trading instruments and such instruments designated at fair value upon initial recognition.

The loan agreement entered into with Kreos Capital IV (Luxembourg) S.à r.l. (referred to as "Kreos") entails a warrant agreement whereby Kreos has the option to be provided with shares in Westwing upon execution of the warrant. The warrant is attached to the borrowings, but is not closely related to that instrument. As a result, the warrant from 2013 has been classified as financial liability and are accounted for separately from the loan.

Given the connection to the moving share price and the variability of the value of the instrument, the definition of a derivative under IAS 39 was met and the warrant has been classified as a financial liability held-for-trading. Consequently, it is revalued to fair value at each reporting date.

Financial liabilities at amortized cost

All of the Group's other financial liabilities are classified as financial liabilities at amortized cost.

All these financial liabilities are recognized initially at fair value net of directly attributable transaction costs. The fair value at initial recognition is the transaction price of the financial liabilities.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Any differences between the amount received and the amount repayable are recognized in the income statement over the term of the loan.

The Group's financial liabilities at amortized cost include trade payables and accruals as well as borrowings.

The financing round with the Westwing group' investors in May 2016 was accounted for as a financial liability at amortized cost in accordance with IFRS. According to German civil code (HGB) the financing round is classified as a capital increase, better reflecting the economic nature of this financing round. Upon initial recognition of such financing, any transaction costs incurred are either recognized in the consolidated income statement or recognized over the remaining term dependent on their contractual agreements.

2.15. Fair value measurement

The Group measures all of its financial assets and financial liabilities at fair value at initial recognition. In addition, derivatives are measured at fair value through profit and loss at each reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions.

2.16. Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held with banks and other short-term highly liquid investments with original maturities of three months or less, that are readily convertible to a known amount of cash and for which the risk of changes in value is considered to be insignificant.

Cash designated for specific purpose and therefore not available for general use by the Group is classified as restricted cash and is reclassified to current or non-current assets where necessary.

2.17. Share capital

The share capital is fully paid.

Incremental costs directly attributable to a capital increase are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

2.18. Provisions for liabilities and charges

Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Provisions for future operating losses are not recognized.

The amount recognized as a provision is the present value and best estimate of the consideration required to settle the present obligation, taking into account the risks and uncertainties surrounding the obligation. Short-term provisions are not discounted.

The majority of the amount shown as provisions in the statement of financial position relates to the provision for returns recognized by Westwing to account for the customers' right to return products within a certain timeframe after purchase and the provision for restoration to account for the obligation to dismantle certain leasehold improvements.

2.19. Share-based compensation

Certain eligible employees of the Group are entitled to receive remuneration in the form of share-based compensation, whereby employees render services as consideration for equity instruments (equity-settled transactions) of the Group. In addition, certain eligible employees are also granted share appreciation rights, which are settled in cash (cash-settled transactions).

Equity-settled transactions

The cost of equity-settled share-based transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model. For share-based compensation awards, the Company analyses whether the price paid by a participant, if any, or the exercise price to be paid is in line with the estimated market price of the underlying equity instruments at the grant date. If a positive difference exists between (i) the estimated market value of the equity instruments and (ii) the purchase price or exercise price; this results in a fair value to be reported as a share-based compensation expense. The fair value determined at the grant date is expensed immediately or on a straight-line basis over the applicable vesting period of the arrangement, based on the Company's estimate of the number of equity instruments that will eventually vest subject to non-market based vesting conditions, with a corresponding credit to equity. The cumulative expense recognized for equity-settled share-based transactions at each reporting date up to the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or credit for a period recognized in the income statement represents the movement in cumulative expense recognized as at the beginning and end of that period.

Cash-settled transactions

The cost of cash-settled transactions is measured at fair value using an appropriate valuation model. The fair value is established initially at the grant date and at each reporting date thereafter until the awards are settled. During the vesting period, a liability is recognized representing the fair value of the award and the vesting period expired as at the reporting date. Changes in the carrying amount of the liability are recognized as an expense in the income statement over the period.

2.20. Current and deferred income taxes

Income tax comprises current and deferred tax. Income tax expense is recognized in the income statement, except to the extent it relates to items directly recognized in equity, in which case it is recognized in equity.

Current tax expense is calculated on the basis of the tax regulations applicable on the balance sheet date in those countries in which the subsidiaries are operating and generate taxable income. Management regularly checks tax declarations, particularly with regards to matters which leave room for interpretation, and, if appropriate, recognizes provisions based on the amounts that are likely to be payable to the tax authorities.

Deferred tax is recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, in accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Similarly, deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill, and subsequently for goodwill which is not deductible for tax purposes.

Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period, which are expected to apply to the period when the temporary differences will reverse or the tax losses carried forward will be utilized.

Deferred tax assets for deductible temporary differences and tax losses carried forward are recorded only to the extent that it is probable that sufficient future taxable profits will be available against which the temporary difference can be utilized.

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

3. Critical accounting estimates and judgements

3.1. Overview

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the corresponding assets or liabilities in future periods.

Estimates and judgements are continually evaluated and are based on management's historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements in addition to those involving estimations in the process of applying accounting policies. Changes in accounting estimates are recognized in the period in which the change takes place where such change exclusively affects that period.

Judgements that have the most significant effect on the amounts recognized in the financial statements, as well as estimates that could potentially cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year are disclosed below.

3.2. Allowance for obsolete inventories (Note 12)

The allowance for obsolete inventories reflects management's estimate of losses resulting from the sale of such items, calculated on the basis of historical experience as well as past and anticipated market performance.

3.3. Income taxes (Note 25)

Deferred income tax

The Group recognizes a deferred tax asset only to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences and tax losses carried forward can be utilized.

The Group considers many factors when assessing the likelihood of future realization of its deferred tax assets, including its recent earnings experience by jurisdiction, expectations of future taxable income, and the carry forward periods available for tax reporting purposes, as well as other relevant factors. Due to inherent complexities arising from the nature of its businesses, future changes in income tax law or variances between our actual and anticipated operating results, the Group assesses the likelihood of future realization of its deferred tax assets based on judgements and estimates. Therefore, actual income taxes could materially vary from these judgements and estimates.

Based on current plans and estimates deferred tax assets are recognized only to the extent to which they net off against deferred tax liabilities.

3.4. Share-based compensations (Note 16)

The Group measures the cost of equity- and cash-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based compensation transactions requires determination of the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option, volatility and yield and making assumptions about each. At the end of each reporting period, the Group reviews its estimates of the number of awards expected to vest and recognizes the impact of any revision to original estimates, in the income statement, with a corresponding adjustment to equity.

3.5. Provision for returns (Note 21)

Customers ordering products online have the right to return such products within a defined period after the purchase, with length of return validity varying by country. In its accounts, Westwing records a provision for such returns to ensure revenue is not overstated. The amount recorded as the provision is calculated based on past experience and current information on gross sales. The provision is calculated per country and adjusts both revenue and cost of sales.

4. Analysis of revenue

Revenue for the year is comprised of the following:

TEUR	**2016**	**2015**
Revenue from the sale of products	237,611	208,587
Revenue from shipping charges	14,455	12,391
Revenue from payment fees	641	657
Other revenue	1,662	1,378
Sales reductions	(3,997)	(3,819)
Total	**250,372**	**219,194**

The geographical split of the Group's revenue is as follows:

TEUR	**2016**	**2015**
DACH	79,260	61,707
International	171,112	157,487
Total	**250,372**	**219,194**

The geographical regions are defined as follows:

- "DACH" includes revenue recognized in Germany, Switzerland and Austria.
- "International" includes revenue recognized in Spain, Italy, France, Poland, Czech Republic, Slovakia, Belgium and the Netherlands as well as in Brazil, Russia and Kazakhstan.

5. Additional information on income and expenses

Included in the loss for the year are the following income and expenses:

TEUR	**2016**	**2015**
Rent and other operating lease expenses	5,552	5,603
Depreciation and amortization	2,675	2,716
Loss / (gain) from revaluation of a financial liability	4,928	4
Auditor's remuneration		
Audit cost according to Sec. 314 para. 1 No. 9a HGB	250	434
Of which relates to previous periods TEUR 9 (2015: TEUR 105)		
Other assurance services according to Sec. 314 para. 1 No. 9b	-	9
Other services according to Sec. 314 para. 1 No. 9d HGB	2	10

6. Personnel expenses

Employee benefits and expenses for the year are comprised of the following:

TEUR	**2016**	**2015**
Wages, salaries and other short-term employee benefits	42,874	47,132
Share-based compensation expenses	4,011	4,641
Social security and similar expenses	9,693	10,525
Total	**56,577**	**62,298**

In 2016, Westwing employed on average 1,523 employees (2015: 1,713 employees) in the following functional areas:

	2016	**2015**
Fulfilment	891	1,017
Marketing	115	139
Administration	517	557
Total	**1,523**	**1,713**

7. Other operating income and expenses

Other operating income for the year is comprised of the following:

TEUR	**2016**	**2015**
Rental income	288	153
Income from release of provisions	243	140
Income from closure of a subsidiary	-	329
Other operating income	411	328
Total	**942**	**951**

Other operating expenses for the year are comprised of the following:

TEUR	**2016**	**2015**
Bad debt expenses	691	613
Other operating expenses	879	836
Total	**1,570**	**1,450**

8. Financial result

The financial result for the year comprises the following:

TEUR	2016	2015
Finance income:		
Interest income	65	10
Total finance income	**65**	**10**
Finance costs:		
Interest expenses	(6,114)	(1,740)
Finance lease interest	-	(49)
Other financial expenses	(33)	(63)
Total finance costs	**(6,147)**	**(1,852)**
Net finance result	**(6,082)**	**(1,842)**
Other financial result:		
Currency exchange gains	4,303	7,850
Currency exchange losses	(2,271)	(10,224)
Other financial result	**2,032**	**(2,374)**
Financial result	**(4,050)**	**(4,215)**

Interest expenses largely relate to interest on the financing round in May 2016 that raised EUR 24.0m. It is recorded at amortized cost within non-current other liabilities. In 2016 interest was calculated on a compounding basis resulting in a financial expense of EUR 4.9m. Interest expenses related to the Kreos loan agreement totaled TEUR 122. This facility was repaid in June 2016. In addition, fees from credit card payments in Brazil are included in interest expenses.

Other financial expenses included adjustments to fair value in relation to the 2013 Kreos option agreement.

9. Property, plant and equipment

The property, plant and equipment employed by the business is set out below:

TEUR	Leasehold improvements	Furniture, fittings and equipment	Assets under finance lease	Prepayments on PPE	Total
Cost at 1 January 2015	1,311	4,404	2,135	1	7,851
Additions	495	2,285	60	3	2,843
Transfers	410	1,778	(2,187)	(1)	-
Disposals	-	(172)	-	-	(172)
Exchange adjustment	(66)	(393)	(8)	-	(466)
Cost at 31 December 2015	2,151	7,902	-	3	10,056
Accumulated depreciation at 1 January 2015	850	1,300	353	-	2,503
Depreciation charge	294	1,459	106	-	1,859
Transfers	48	407	(455)	-	-
Disposals	-	(82)	-	-	(82)
Exchange adjustment	(38)	(287)	(4)	-	(329)
Accumulated depreciation at 31 December 2015	1,154	2,797	-	-	3,952
Carrying amount at 31 December 2015	**996**	**5,105**	**-**	**3**	**6,104**

TEUR	Leasehold improvements	Furniture, fittings and equipment	Assets under finance lease	Prepayments on PPE	Total
Cost at 1 January 2016	2,151	7,902	-	3	10,056
Additions	404	1,496	-	-	1,901
Transfers	-	-	-	-	-
Disposals	-	(145)	-	-	(145)
Exchange adjustment	81	201	-	-	283
Cost at 31 December 2016	2,636	9,455	-	3	12,094
Accumulated depreciation at 1 January 2016	1,154	2,797	-	-	3,952
Depreciation charge	306	1,324	-	-	1,630
Transfers	-	1	-	-	1
Disposals	-	(120)	-	-	(120)
Exchange adjustment	54	84	-	-	138
Accumulated depreciation at 31 December 2016	1,514	4,087	-	-	5,600
Carrying amount at 31 December 2016	**1,123**	**5,369**	**-**	**3**	**6,494**

In 2015, the Group purchased outright the leasehold improvements that it had previously leased under a finance lease agreement from the lessor. The assets were purchased at value of the remaining lease liability of TEUR 1,542.

Acquisitions of furniture, fittings and equipment occurred across all entities and included servers and IT hardware as well as office and warehouse equipment.

10. Intangible assets

The intangible assets employed by the business are set out below:

TEUR	Software and licenses	Trademarks	Internally generated intangibles	Intangibles under development	Total
Cost at 1 January 2015	356	261	1,104	1,412	3,133
Additions	255	12	1,711	18	1,995
Transfers	-	-	658	(658)	-
Disposals	(9)	-	(6)	(754)	(768)
Exchange adjustment	(19)	-	(18)	-	(36)
Cost at 31 December 2015	584	273	3,450	18	4,324
Accumulated depreciation at 1 January 2015	123	24	743	754	1,644
Amortization charge	165	27	676	-	867
Impairment charge	-	-	-	-	-
Transfers	-	-	-	-	-
Disposals	(7)	-	(6)	(754)	(767)
Exchange adjustment	(10)	-	(18)	-	(29)
Accumulated depreciation at 31 December 2015	270	50	1,395	-	1,716
Carrying amount at 31 December 2015	**314**	**222**	**2,054**	**18**	**2,608**

TEUR	Software and licenses	Trademarks	Internally generated intangibles	Intangibles under development	Total
Cost at 1 January 2016	584	273	3,450	18	4,325
Additions	123	2	1,676	284	2,085
Transfers	-	-	18	(18)	-
Disposals	(3)	-	(26)	-	(29)
Exchange adjustment	18	-	(5)	-	13
Cost at 31 December 2016	721	275	5,114	284	6,394
Accumulated depreciation at 1 January 2016	270	50	1,395	-	1,715
Amortization charge	161	28	857	-	1,046
Impairment charge	-	-	-	-	-
Transfers	-	-	-	-	-
Disposals	(3)	-	(6)	-	(9)
Exchange adjustment	12	-	(2)	-	10
Accumulated depreciation at 31 December 2016	440	78	2,244	-	2,762
Carrying amount at 31 December 2016	**281**	**197**	**2,870**	**284**	**3,632**

Additions to internally generated intangibles and intangibles under development of TEUR 2,085 largely comprise of development costs in respect of the two IT systems OMS (warehouse management system) and Partner Portal (platform for interaction with suppliers) as well as the development of own software in the area of consumer apps, the integration of WestwingNow and product information systems. The development projects have been separated into identifiable project phases, characterized by the development of new functionalities. Upon the completion and roll out of a functionality, the related costs are transferred from intangibles under development into internally generated intangibles, at which point amortization over the useful life of three years commences.

There were no triggering events in the 2016 financial year which would have resulted in an impairment.

11. Trade and other receivables

Trade and other receivables are comprised of the following:

TEUR	**31/12/2016**	**31/12/2015**
Trade receivables	5,198	4,989
Rent deposits	3,908	2,558
Other receivables	1,272	684
Trade and other receivables, net	**10,378**	**8,230**
Of which:		
Non-current	3,457	2,467
Current	6,921	5,763

Trade receivables are shown net of an allowance for impairment losses. The other classes within trade and other receivables do not contain impaired assets.

The ageing of trade receivables based on the issue date of the invoice, gross of any provision, is as follows:

TEUR	**31/12/2016**	**31/12/2015**
Up to 3 months	4,882	4,453
3 months to 1 year	744	1,129
1 to 5 years	1,192	873
over 5 years	-	-
Trade receivables (gross)	**6,817**	**6,455**
Allowance for impairment	(1,619)	(1,467)
Trade receivables (net)	**5,198**	**4,989**

Trade receivables after allowance for impairment of TEUR 5,198 (2015: TEUR 4,989) are considered to be neither past due nor impaired.

Trade receivables that are past due are fully provided for. The trade receivables aged between 3 months and one year are primarily in respect of credit card transactions in Brazil as well as cash on delivery transactions in Italy and Poland. The trade receivables outstanding and aged between one and 5 years are considered to be past due and are fully provided for, when the collectability is not assured anymore.

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

TEUR	**2016**	**2015**
At 1 January	1,467	1,403
Provided in the year	167	279
Utilized in the year	(21)	-
Reversed in the year	(38)	(215)
Exchange rate differenced	45	-
At 31 December	**1,619**	**1,467**

Doubtful debtors' balances are written off when it becomes evident that the balance is not collectable.

Due to their short-term nature, there is no material difference between the carrying amounts shown above and the fair value of trade and other receivables.

Trade receivables are primarily composed of receivables from payment service providers for credit card payments made by customers. These are usually settled within a day of the customer placing the order online and submitting the payment. There is no history of default with any of the payment service providers, so that the credit risk with regards to these balances is assessed to be low.

The Company does not hold any collateral as security.

Disclosures in respect of financial assets and liabilities can be found in Notes 22 and 23.

12. Inventories

Inventories and prepayments on inventories have developed as follows:

TEUR	**31/12/2016**	**31/12/2015***
Inventories	16,757	13,725
Prepayments on inventories	1,971	997
Total	**18,728**	**14,722**

*Prior year figures have been adjusted in accordance with IAS 8, refer Note 2.3 in the notes.

Inventories available for sale representing products and merchandise are stated net of a provision for inventory write off amounting to TEUR 4,019 (2015: TEUR 2,404).

13. Cash and cash equivalents

Cash and cash equivalents are comprised of the following:

TEUR	**31/12/2016**	**31/12/2015**
Cash at bank and in hand	17,899	18,674
Total	**17,899**	**18,674**

14. Other assets

TEUR	**31/12/2016**	**31/12/2015**
Prepaid expenses	998	2,098
VAT receivables	414	155
Other tax receivables	276	171
Other receivables	156	221
Total	**1,844**	**2,645**

15. Share capital and reserves

Share capital

An overview of how share capital developed is as follows:

In thousands	**Number of outstanding shares**
1 January 2015	**81**
Issue of ordinary shares in 2015	11
At 31 December 2015 / 1 January 2016	**92**
Issue of ordinary shares in 2016	-
At 31 December 2016	**92**

The total authorized number of ordinary shares as per 31 December 2016 is 91,702 shares (31 December 2015: 91,702 shares) with a nominal value of EUR 1 per share. The nominal value of all ordinary shares is fully paid.

In 2016 there was no capital increase.

Reserves

The other reserves include the IFRS adoption reserve and the share-based compensation reserve. The IFRS adoption reserve includes the effect of the conversion from German GAAP to IFRS as of 1 January 2013. The share-based compensation reserve comprises the value of equity-settled share-based compensation.

The other comprehensive income reserve represents foreign currency differences arising from the translation of foreign operations into the presentational currency. The amounts recognized are reclassified to the profit and loss upon disposal of these foreign operations.

16. Share-based compensation

Since 2011 the Company and its subsidiaries operate share-based compensation schemes under which eligible employees have been provided with (i) the opportunity to invest in the Company's shares or in the shares of a subsidiary or (ii) they have been granted options over shares in the Company or options over shares in a subsidiary of the Company.

The share-based compensation awards have a vesting period of 36 or 48 months. The first tranche vests after 3-12 months, while the remaining awards vest in equal instalments on quarterly basis over the remainder of the vesting period. Generally, the awards may only be exercised once vested.

Share awards

The tables below provide an overview of the movements in the equity-settled share-based compensation awards related to shares in the Company or the shares in the Company's subsidiaries:

Development of issued equity shares:

	2016	2015*
Number of unvested awards outstanding at the beginning of the period	1,286	4,634
Forfeited during the period	113	250
Vested during the period	757	3,098
Number of unvested awards outstanding at the end of the period	**416**	**1,286**
Settled during the period	1,383	-
Cancelled during the period	29	-
Total number of vested awards outstanding at the end of the period	**23,818**	**24,473**

* Prior-year values adjusted to correct misstatements.

Development of equity-settled share options:

	2016	2015*
Number of unvested awards outstanding at the beginning of the period	7,016	8,888
Granted during the period	3,573	85
Forfeited during the period	1,112	469
Vested during the period	1,514	1,488
Number of unvested awards outstanding at the end of the period	**7,963**	**7,016**
Settled during the period	708	-
Cancelled during the period	23	-
Total number of vested awards outstanding at the end of the period	**3,544**	**2,761**

* Prior-year values adjusted to correct misstatements.

Development of cash-settled share options:

	2016	2015*
Number of unvested awards outstanding at the beginning of the period	420	1,284
Granted during the period	-	56
Forfeited during the period	66	93
Vested during the period	146	827
Number of unvested awards outstanding at the end of the period	**208**	**420**
Settled during the period	402	-
Total number of vested awards outstanding at the end of the period	**5,511**	**5,767**

* Prior-year values adjusted to correct misstatements.

Share options and phantom options

Share options and phantom options relating to the Company's shares or to a subsidiaries' shares have been granted to eligible employees. The share options granted to eligible employees are classified as equity-settled. The phantom options are accounted for as cash-settled since the Company has a legal or constructive obligation to settle these options in cash upon the occurrence of an exit event.

The exercise price of the granted options is based on the market price of the shares on the date of the grant, or EUR 1 in some cases. Both the options and the phantom options are conditional on the employee completing 4 years of service (the vesting period) or, in some cases, conditional upon being employed at the date of an exit event. Furthermore, the phantom options are only exercisable if an exit event occurs.

Movements in the number of share options and phantom options outstanding and their related weighted average exercise prices are as follows:

Share options	2016		2015*	
	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price	Number of Options
Outstanding at 1 January	921.84	9,777	884.76	10,161
Granted during the year	42.98	3,573	5,732.05	85
Forfeited during the year	500.34	1,112	990.38	469
Settled during the year	251.40	708	-	-
Cancelled during the year	1.00	23	-	-
Outstanding at 31 December	**732.77**	**11,507**	**921.84**	**9,777**
Thereof vested	*1,282.80*	*3,544*	*1,240.02*	*2,761*

* Prior-year values adjusted to correct misstatements.

Phantom options	2016		2015*	
	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price	Number of Options
Outstanding at 1 January	175.54	6,187	151.73	6,224
Granted during the year	-	-	5,228.69	56
Forfeited during the year	1,583.65	66	1,624.22	93
Settled during the year	89.46	402	-	-
Outstanding at 31 December	**165.35**	**5,719**	**175.54**	**6,187**
Thereof vested	*99.50*	*5,511*	*78.90*	*5,767*

* Prior-year values adjusted to correct misstatements.

No options were exercised in 2016 (2015: no options).

Share options and phantom options outstanding at the end of the year have the following vesting dates and exercise prices:

Share options		**Weighted Average Exercise price per share options**		**Share Options**	
Grant Date	**Vesting Date**	**2016**	**2015***	**2016**	**2015***
2011	2015	257.63	293.74	328	401
2012	2016	1.00	1.00	655	655
2013	2017	80.42	72.60	458	508
2014	2018	1,320.36	1,139.75	5,821	7,138
2015	2019	463.08	671.58	1,017	1,075
2016	2020	47.46	-	3,228	-
		732.77	**921.84**	**11,507**	**9,777**

*Prior-year values adjusted to correct misstatements.

Phantom options		**Weighted Average Exercise price per share options**		**Share Options**	
Grant Date	**Vesting Date**	**2016**	**2015***	**2016**	**2015***
2011	2015	54.21	53.70	5,009	5,373
2012	2016	292.00	292.00	88	88
2013	2017	292.00	292.00	183	185
2014	2018	1,470.23	1,340.73	216	279
2015	2019	1,243.77	1,312.23	223	262
2016	2020	-	-	-	-
		165.35	**175.54**	**5,719**	**6,187**

* Prior-year values adjusted to correct misstatements.

The contractual lives for the options are not specified in the option agreements. As a result, the weighted average remaining contractual life for the options outstanding as at each reporting date is dependent on future exit events.

Fair value of equity-settled share options and cash-settled phantom options

The fair values of the share options granted and phantom options granted to employees are measured based on the Black-Scholes option-pricing model. Expected volatility is estimated by considering historical average share price volatility of comparable companies. The expected lives for the options are dependent on future exit events. As a result, the Company used management’s judgment to develop appropriate assumptions as to when these exits occur.

The weighted average fair value for the share options granted in the 2016 financial year with compensation from equity instruments amounted to TEUR 3,999 (2015: TEUR 888) at grant date. The inputs used in the measurement of the fair values of these share options at the date of grant are summarized below:

Grant date	2016 (Company shares)	2015 (Subsidiary shares)	2015 (Company shares)
Share price (EUR)	3,445 - 4,167	976 – 36,886	3,817 – 3,983
Option exercise price (EUR)	1 - 1,830	260.70 – 15,428	4,352 – 5,229
Volatility based on ex-pected life	47.2%	51.0%	51.0%
Expected life	4.0	4.0	4.0
Dividend yield	nil	nil	nil
Risk-free rate	0%	0%	0%
Fair value per option (EUR)	1,986 - 4,167	727 - 3,050	732 - 1,286

The phantom options are cash-settled. Accordingly, the fair value of the underlying shares and the fair value of the phantom options will have to be determined at each reporting date.

The weighted average fair value for the phantom options outstanding as at 31 December 2016 was TEUR 1.6 (2015: TEUR 1.8). The inputs used in the measurement of the fair values of the cash-settled phantom options at the reporting dates are summarized below:

Balance sheet date	2016 (Subsidiary shares)	2016 (Company shares)	2015 (Subsidiary shares)	2015 (Company shares)
Share price (EUR)	1,804	3,405	1,863	3,889
Weighted Average Option exercise price (EUR)	90.97	4,714.16	96.11	4,732.50
Volatility based on expected life	43.7% - 46.4%	46.4%	48.1% - 53.4%	51.0%
Expected life	1.08 – 1.50	3.00	2.08 – 2.50	4.00
Dividend yield	nil	nil	nil	nil
Risk-free rate	0.0%	0.0%	0.0%	0.0%
Fair value per option (EUR)	1,031 - 1,803	333 - 1,204	1,089 - 1,783	650 - 877

Share-based compensation expenses and liabilities

The fair value is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the number of shares that will eventually vest. For awards with graded-vesting features, each instalment of the award is treated as a separate grant. This means that each instalment is separately expensed over the related vesting period.

Estimated forfeitures are revised if the number of awards expected to vest differ from previous estimates. Differences between the estimated and actual forfeitures are accounted for in the period they occur.

In 2016, the total share-based compensation expense recognized amounted to TEUR 4,011 (2015: TEUR 4,641), which includes expenses in respect of social security of TEUR 284 (2015: 335). The total expense recognized includes expenses due to equity-settled share-based compensation awards of TEUR 4,216 (2015: TEUR 5,464). In addition, buybacks of equity instruments without affecting income amounting to TEUR 1,441, of which TEUR 767 was non-cash. In contrast, the revaluation of cash-settled options as at 31 December 2016 resulted in a gain of TEUR 489 (2015: TEUR 1,154). The liability recognized for the cash-settled options as at 31 December 2016 therefore amounts to TEUR 9,600 (2015: TEUR 10,542). In addition, there were buybacks of cash-settled options without affecting income. The total intrinsic value at the end of the period of liabilities for phantom options that had vested by the end of the period amounts to TEUR 9,472 (2015: TEUR 10,327). These vested phantom options are only exercisable upon occurrence of an exit event.

New participation program 2016

In 2016, Westwing has established a new participation program, consisting of three elements.

- Repurchase of already vested equity shares or share options
- Issue of new share options of Westwing Group GmbH
- Prolongation of the vesting period of already existing share options

Repurchase of equity-settled options and equity shares

Connected to this participation program, equity-settled options and equity shares were purchased back by Westwing from entitled employees in July 2016. A total of 708 equity-settled options at an average price of EUR 898, 402 cash settled share options at an average price of 691 and 1,383 equity shares at an average price of EUR 2,059 were purchased (values without considering tax and social security). The total of TEUR 998 is shown as treasury shares within equity. The change of the number of options is included in the descriptions above.

Issue of new equity-settled share options

In 2016, 3,485 new equity-settled share options were issued to selected employees (included in the share options tables above). The new share options have a strike price of EUR 1.00. The new share options are granted at the later of service period of at least three years of service rendered or one year after an exit event. If the employee leaves the company before the completion of three years' service the options are forfeited. 345 of those new options were forfeited in 2016. The fair value of each option amounted to EUR 4,167 in 2016.

Prolongation of the vesting periods

In 2016, Westwing and the employees in the new participation program agreed to prolongate the vesting period for 40% of the previously existing options until June 2019. This agreement provides that these 40% are cancelled when the employee gives notice. When the employee is given notice or the employment ends for another reason, the original vesting period is applied. The re-vesting of vested shares is a non-beneficial modification and had no impact on the fair value of the options.

17. Borrowings

The Company has no borrowings as at 31 December 2016 (31 December 2015: TEUR 1,708).

The Kreos loan agreement from 12 April 2013 allowed the Company to draw up to TEUR 10,000 in individual tranches. Two tranches of each TEUR 5,000 were drawn on 1 July 2013 and on 27 August 2013 respectively. Both tranches required repayment within 36 months of being granted and were fully repaid in the 2016 financial year.

18. Derivative financial instruments and financial liabilities at amortized cost

In parallel with the loan agreement, Westwing entered into a warrant agreement with Kreos. Upon execution, Kreos will receive equity from Westwing. Due to Kreos' general admission for Westwing Kreos will receive equity for a price per share to be determined by Kreos, providing the nominated price is in line with the price agreed in any financing round since issue of the warrant. A payment of TEUR 1,250 was received in exchange for this warrant, which is recorded as a derivative financial instrument recorded at fair value through profit or loss. The value as at 31 December 2016 increased to TEUR 868 (31 December 2015: TEUR 835).

In May 2016 Westwing entered into a financing contract granting investors options in exchange for a cash payment of TEUR 24,000. The options can be converted to Westwing shares at the time of a predefined event. The price is measured according to the entity valuation at the expected time of conversion. After initial recognition, financial liabilities are measured at amortized cost using the effective interest rate method. When using the effective interest rate method, the financial liability's amortized costs are calculated and the interest expense is allocated over the related period. The subsequent measurement is at amortized cost considering the entity valuation updated each year. As at 31 December 2016 the value of the liability was TEUR 27,901.

19. Finance lease liabilities

In the 2015 financial year, the Group bought out a number of steel racks and other warehouse equipment previously under finance lease from the lessor at the value of the remaining lease liability of TEUR 1,542.

20. Current and non-current liabilities

Financial liabilities

At 31 December financial liabilities comprise of the following:

TEUR	**31/12/2016**	**31/12/2015**
Borrowings	-	1,708
Trade payables	29,482	25,070*
Accruals	9,237	9,046*
Liabilities to employees	13,480	14,007
VAT liabilities	2,854	2,453
Tax liabilities	395	259
Other financial liabilities	28,769	861
Total	**84,217**	**53,404**
Of which current	46,717	42,862*
Of which non-current	37,501	10,542

*Prior year figures have been adjusted in accordance with IAS 8, refer Note 2.3 in the notes.

Financial liabilities to employees of TEUR 13,480 (2015: TEUR 14,007) includes the liability for cash-settled share-based compensations of TEUR 9,600 (2015: TEUR 10,542). Refer to Note 16 for further information.

Disclosures in respect of financial assets and liabilities can be found in Notes 22 and 23.

Non-financial liabilities

TEUR	**31/12/2016**	**31/12/2015**
Customer prepayments	10,400	9,115
Liabilities to employees (vacation)	1,455	1,217
Other non-financial liabilities	728	76
Total	**12,584**	**10,408**
Of which current	12,584	10,408
Of which non-current	-	-

*Prior year figures have been adjusted in accordance with IAS 8, refer Note 2.3 in the notes.

22. Provisions

Movements in provisions for liabilities and charges are as follows:

TEUR	Legal claims	Restoration	Returns	Other	Total
At 1 January 2016	**154**	**296**	**1,308**	**65**	**1,823**
Provided in the year	148	220	1,357	16	**1,740**
Released during the year	(72)	(179)	-	-	**(250)**
Utilized during the year	(68)	-	(1,316)	(65)	**(1,449)**
Exchange differences	13	-	8	-	**21**
At 31 December 2016	**175**	**337**	**1,357**	**16**	**1,885**

Analysis of total provisions:

TEUR	Legal claims	Restoration	Returns	Other	Total
Included in:					
Current liabilities	175	-	1,357	16	**1,548**
Non-current liabilities	-	337	-	-	**337**
At 31 December 2016	**175**	**337**	**1,357**	**16**	**1,885**

The provision for returns of TEUR 1,357 (2015: TEUR 1,308) is recorded in order to capture the risk of products being returned within the legal period. The provision is calculated per country at an estimated return rate.

The restoration provision relates to the obligation to reinstate the leasehold property to its former condition at the end of the lease term. The timing of the cash outflow depends on the timing of vacating the leased property, in respect of which the provision was recorded. For the previous office in Dingolfinger Str. 2 it is expected that the accrued amounts will be paid out in the 2017 financial year. The addition relates to the restoration provision for the new office in Moosacher Str. 88. The timing of payment is uncertain.

The provision for legal claims represents the best estimate of the obligation in connection with claims against the Group. The increase in the provision of TEUR 148 is primarily due to trademark infringement claims. The timing of any cash outflow relating to the legal claims provision is uncertain but likely to be within one year.

In the previous year, movements in provisions for liabilities and charges are as follows:

TEUR	Legal claims	Restoration	Returns	Other	Total
At 1 January 2015	**223**	**296**	**1,096**	**59**	**1,674**
Provided in the year	127	-	1,308	65	**1,500**
Released during the year	(137)	-	-	(3)	(140)
Utilised during the year	(59)	-	(1,077)	(55)	(1,191)
Exchange differences	-	-	(19)	(1)	(20)
At 31 December 2015	**154**	**296**	**1,308**	**65**	**1,823**

Analysis of total provisions:

TEUR	Legal claims	Restoration	Returns	Other	Total
Included in:					
Current liabilities	154	-	1,308	65	**1,527**
Non-current liabilities	-	296	-	-	**296**
At 31 December 2015	**154**	**296**	**1,308**	**65**	**1,823**

23. Financial risk management

23.1. Financial risk factors

23.1.1. Overview

The Group actively manages its financial risks, operational risks and legal risks. The Group's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The primary objectives of the financial risk management function are to establish risk limits, and ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures, in order to minimize operational and legal risks. The Group's risk management is carried out centrally and covers all consolidated entities.

23.1.2. Market risk

The Group is exposed to market risks. Market risks arise from open positions in foreign currencies (currency risk), and interest bearing assets and liabilities (interest rate risk), which are sensitive to general and specific market movements. Management monitors such risks on an ongoing basis to ensure that exposure stays within certain limits. However, this approach does not prevent losses in the event of more significant market movements. Sensitivities to market risks included below are based on a change in one factor while keeping all other factors constant. In practice, this is unlikely to occur as changes in certain factors may be correlated.

Currency risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to Polish Zloty, Russian Ruble, Brazilian Real and Swiss Francs. Foreign exchange risk arises when future commercial transactions or recognized assets and liabilities are denominated in a currency that is not the entity's functional currency.

The Group's business model minimizes foreign exchange risk. A significant portion of local revenue as well as local costs is generated in the respective local currencies. Foreign exchange gains and losses shown in consolidated profit and loss arise mainly from intercompany funding activities.

The following table demonstrates the sensitivity of profit and loss as well as equity to a reasonably possible change in foreign exchange rates at the reporting date, with all other variables held constant.

TEUR	**31/12/2016**	**31/12/2015**
Polish Zloty strengthening/ (weakening) by 10%	+67 / (67)	+94 / (94)
Russian Ruble strengthening/ (weakening) by 10%	+ 274 / (274)	+1,692 / (1,692)
Swiss Franc strengthening/ (weakening) by 10%	+23 / (23)	+21 / (21)
Total	**+364 / (364)**	**+1,807 / (1,807)**

The exposure was calculated only for monetary balances denominated in currencies other than the functional currency. There is no effect on other comprehensive income due to the lack of application of hedge accounting.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's borrowings are mainly on fixed rate terms. Hence, a reasonably possible change in interest rates at the reporting date would have no impact on profit or loss or equity.

23.1.3. Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation by being unable or unwilling to meet its commitments. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables. Exposure to credit risk arises as a result of the sale of products on credit terms and other transactions with counterparties giving rise to financial assets. Credit exposures to customers are recorded systematically, analyzed and managed in the respective subsidiaries, using both internal and external sources of information.

The Group's maximum exposure to credit risk is represented by the carrying amount of each class of financial assets in the statement of financial position, as shown below:

TEUR	**Note**	**31/12/2016**	**31/12/2015**
Trade and other receivables	11		
Trade receivables (net)		5,198	4,989
Other financial receivables		5,180	3,241
Cash and cash equivalents	13		
Cash in hand		5	13
Bank balances		17,894	18,661
Short-term bank deposits		-	-
Total on-balance sheet exposure		**28,277**	**26,903**

Trade and other receivables

Due to the nature of the Group's activities, exposure to credit risk with counterparties is limited due to cash being received at the time of sale, or upon delivery of the product in the case of cash on delivery sales, in the majority of transactions. Trade and other receivables are therefore mainly limited to receivables from payment service providers and credit card companies.

The Group manages its exposure to credit risk by placing limits on the amount of risk accepted in relation to counterparties or groups of counterparties. Such risks are monitored on a regular basis and are subject at minimum to annual review.

The Group regularly reviews the ageing analysis of outstanding trade receivables and follows up on past due balances.

Cash and cash equivalents

The credit quality of the financial institutions with which accounts are held have been analyzed below using Standard and Poor's ratings:

TEUR	**31/12/2016**	**31/12/2015**
AAA	-	-
AA- to AA+	143	66
A- to A+	5	3
BBB- to BBB+	13,493	17,871
Lower than BBB- rated	4,040	354
Unrated	213	368
Total	**17,894**	**18,661**

Concentration of credit risks

Considering the structure of the Group and the market in which it operates, the Group´s credit risk is with many diverse counterparties and therefore there is no assessed concentration of credit risk.

23.1.4. Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities without effecting the daily operations or the financial condition of the Group. Liquidity facilitates the ability to meet expected and unexpected requirements for cash.

The Group's objective is to maintain a stable balance between continuity of funding and flexibility through the use of capital increases and loans.

The Group is exposed to daily calls on its available cash resources. To ensure such calls can be met, monthly cash flow forecasting is performed in each operating entity and aggregated into a Group cash flow forecast. These rolling forecasts of the group's liquidity requirements are strictly monitored to ensure the Group has sufficient cash to meet operational needs.

The table below shows the Group's non-derivative financial liabilities as at 31 December 2016 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows.

The undiscounted cash flows differ from the amount included in the statement of financial position due to the carrying amount disclosed in the statement of financial position being based on discounted cash flows.

The maturity analysis of financial liabilities at 31 December 2016 is as follows:

TEUR	**Less than 3 months**	**Between 3 months and 1 year**	**Between 1 year and 5 years**	**Over 5 years**	**Total**
Trade payables	29,482	-	-	-	29,482
Accruals	9,237	-	-	-	9,237
Liabilities to employees (share-based compensation and bonuses)	3,880	-	9,600	-	13,480
Tax liabilities	3,249	-	-	-	3,249
Total future payments, including future principal and interest payments	**45,848**	**-**	**9,600**	**-**	**55,449**

The financial liabilities described in note 18 are not shown in the table above as they are not cash effective.

The maturity analysis of financial liabilities at 31 December 2015 is as follows:

TEUR	**Less than 3 months**	**Between 3 months and 1 year**	**Between 1 year and 5 years**	**Over 5 years**	**Total**
Liabilities					
Borrowings	993	837	-	-	1,830
Trade payables	24,204*	866	-	-	25,070
Accruals	9,046*	-	-	-	9,046
Liabilities to employees (share-based compensation and bonuses)	3,465	-	10,542	-	14,007
Tax liabilities	2,712	-	-	-	2,712
Other financial liabilities	27	-	-	-	27
Total future payments, including future principal and interest payments	**40,447**	**1,703**	**10,542**	**-**	**52,692**

*Prior year figures have been adjusted in accordance with IAS 8, refer Note 2.3 in the notes.

23.2. Capital management

The Group manages its capital structure in order to finance the Group's activities and continued growth. Particular focus is given to generating liquid funds from business operations and through capital injections from new or existing investors. The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

23.3. Fair value estimation

In accordance with IFRS 13, fair values of financial assets and financial liabilities have to be allocated to one of the three levels of the fair value hierarchy. The individual levels of the fair value hierarchy are defined as follows:

- *Level 1:* quoted (unadjusted) prices in an active market for identical assets and liabilities that the entity can access at the measurement date
- *Level 2:* inputs other than quoted market prices included within Level 1 that are observable for the asset and liability, either directly or indirectly
- *Level 3:* inputs for the assets and liabilities not based on observable market data

The table below presents the carrying values of the Group's financial assets and liabilities measured at fair value and discloses their fair value by hierarchy level:

	31/12/2016				**31/12/2015**			
TEUR	**Level 1**	**Level 2**	**Level 3**	**Carrying value**	**Level 1**	**Level 2**	**Level 3**	**Carrying value**
Liabilities								
Other financial liabilities:								
Derivative financial instrument	-	-	868	868	-	-	834	834
Total liabilities	**-**	**-**	**868**	**868**	**-**	**-**	**834**	**834**

There were no transfers between the levels of the fair value hierarchy during the year.

Cash and cash equivalents, trade and other receivables, trade and other payables and other financial liabilities have short-term maturities. Therefore, their carrying amount at the end of the reporting period approximates to their fair value.

The two outstanding warrants under which the loan providers have the right to be provided with shares in Westwing upon execution are included in the derivative financial instruments category. The fair value of the warrant is calculated using a Black Scholes model. The valuation is based on data input classified as un-observable market data (Level 3). Inputs of market data into the Black Scholes model is in line with the inputs for the valuation of share-based compensation under IFRS 2.

24. Financial instruments by category

The tables below present the analysis of the balance sheet items and their classification into subsequent measurement at amortized cost and at fair value through profit or loss.

The amounts shown reflect carrying values, which given the short-term nature of all balances involved, reflect the items fair value.

Loans and receivables:

TEUR	**Note**	**31/12/2016**
Cash and cash equivalents	13	17,899
Trade and other receivables	11	10,378
Total		**28,277**

		31/12/2015
Cash and cash equivalents	13	18,674
Trade and other receivables	11	8,230
Total		**26,904**

Financial liabilities:

		31/12/2016		
TEUR	**Note**	**Financial liabilities at amortized cost**	**Financial liabilities at fair value through profit or loss – held-for-trading**	**Total**
Trade payables	20	29,482	-	29,482
Accruals	20	9,237	-	9,237
Other financial liabilities				
Other payables		16,729	-	16,729
Derivative financial instrument	18	-	868	868
Borrowings	17	-	-	-
Total		**55,448**	**868**	**56,317**

		31/12/2015		
TEUR	**Note**	**Financial liabilities at amortized cost**	**Financial liabilities at fair value through profit or loss – held-for-trading**	**Total**
Trade payables	20	25,070*	-	25,070*
Accruals	20	9,046*	-	9,046*
Other financial liabilities				
Other payables		27	-	27
Derivative financial instrument	18	-	834	834
Finance lease liabilities*	19	-	-	-
Borrowings	17	1,708	-	1,708
Total		**34,715**	**834**	**35,549**

*Prior year figures have been adjusted in accordance with IAS 8, refer Note 2.3 in the notes.

Income and expenses from financial instruments

The total impact on profit and loss as a result of financial instruments for the year ended 31 December 2016 was a loss of TEUR 6,937 (2015: loss of TEUR 2,455).

Income and expenses from financial instruments can be split as follows:

TEUR	**Category**	**2016**	**2015**
Interest income	Loans & Receivables	65	10
Interest expense	Liabilities at amortized cost	(1,228)	(1,740)
Finance lease interest	IAS 17	-	(49)
Interest expense of Investor option	Liabilities at amortized cost	(4,928)	-
Valuation of Kreos warrant	Held for trading	(33)	(4)
Other financial expenses	Liabilities at amortized cost	(122)	(59)
Impairment of financial assets	Loans & Receivables	(691)	(613)
Total		**(6,937)**	**(2,455)**

25. Material partly-owned subsidiaries

Financial information of subsidiaries that have material non-controlling interests (NCI) is provided below:

	Country of incorporation and operation	**31/12/2016 NCI in %**	**31/12/2015 NCI in %**
Westwing Home & Living GmbH	Germany	27.97%	29.37%
Westwing Comércio Varejista Ltda.	Brazil	22.71%	24.02%

TEUR	**31/12/2016**	**31/12/2015**
Accumulated balances of material non-controlling interest:		
Westwing Home & Living GmbH	(17.890)	(17,866)
Westwing Comércio Varejista Ltda.	(3.943)	(4,070)
Profit (loss) allocated to material non-controlling interest:		
Westwing Home & Living GmbH	(1,031)	(3,828)
Westwing Comércio Varejista Ltda.	75	(892)

No dividends were paid to non-controlling interest for either company in 2016 or 2015.

The summarized financial information of these subsidiaries is provided below. This information is based on amounts before elimination of intercompany transactions.

Summarized statement of profit or loss for the year ended 31 December 2016:

TEUR	**Westwing Home & Living GmbH**	**Westwing Comércio Varejista Ltda.**
Revenue	86,136	30,424
Result for the period	(3,688)	331
Total comprehensive income / (loss)	(3,688)	331

Summarized statement of profit or loss for the year ended 31 December 2015:

TEUR	**Westwing Home & Living GmbH**	**Westwing Comércio Varejista Ltda.**
Revenue	67,032	28,251
Result for the period	(13,035)	(3,715)
Total comprehensive income / (loss)	(13,035)	(3,715)

Summarized statement of financial position as at 31 December 2016:

TEUR	**Westwing Home & Living GmbH**	**Westwing Comércio Varejista Ltda.**
Cash and cash equivalents	3,737	3,091
Trade and other receivables	5,141	747
Inventory	5,005	2,120
Total current assets	22,524	6,338
Total non-current assets	3,654	803
Total current liabilities	(80,539)	(10,723)
Total non-current liabilities	(9,601)	-

Summarized statement of financial position as at 31 December 2015:

TEUR	**Westwing Home & Living GmbH**	**Westwing Comércio Varejista Ltda.**
Cash and cash equivalents	3,432	328
Trade and other receivables	6,155	399
Inventory	5,442	1,556
Total current assets	15,121	2,299
Total non-current assets	3,694	658
Total current liabilities	(69,126)	(6,567)
Total non-current liabilities	(10,521)	-

Summarized cash flow information for the year ended 31 December 2016:

TEUR	**Westwing Home & Living GmbH**	**Westwing Comércio Varejista Ltda.**
Operating cash flow	906	2,234
Investing cash flow	(342)	(206)
Financing cash flow	(257)	450
Net increase in cash and cash equivalents	**307**	**2,478**

Summarized cash flow information for the year ended 31 December 2015:

TEUR	**Westwing Home & Living GmbH**	**Westwing Comércio Varejista Ltda.**
Operating cash flow	(9,162)	(275)
Investing cash flow	(2,569)	(362)
Financing cash flow	13,115	930
Net increase in cash and cash equivalents	**1,384**	**293**

26. Income taxes

Current income taxes

The major components of current income tax expense for the year ended 31 December 2016 and 2015 are:

TEUR	**2016**	**2015**
Current income tax:		
Current income tax charge / gain	392	166
Income tax expense reported in the income statement	**392**	**166**

Reconciliation of the expected tax income as the accounting profit multiplied by Germany's domestic corporate and trade tax rate for 2016 (2015) to the tax expenses recognized in income statement: The applied tax rate is 32.975% and consist of 15% corporate tax contribution on these 5.5% solidarity surcharges and 17.15% business tax.

TEUR	**2016**	**2015**
Result before income tax	**(24,516)**	**(61,517)**
Applicable tax rate	32.975%	32.975%
At domicile applicable tax rate expected tax income	(8,084)	(20,285)
Unrecognized tax losses	6,422	16,463
Effect from the use of unrecognized tax losses	(1,026)	-
Non- deductible expenses for tax purposes:		
Non-deductible expenses and other	2,652	1,667
Effect on different tax rate of foreign operations	36	2,321
Income tax expense reported in the income statement	**392**	**166**

Deferred taxes

The Group's deferred taxes relate to the following:

	Consolidated statement of financial position		**Consolidated income statement**	
TEUR	**31/12/2016**	**31/12/2015**	**2016**	**2015**
Self-developed software	(1,040)	(613)	(427)	(554)
Differences in tax depreciation	2	1	1	-
Finance lease capitalization	-	-	-	11
Inventory allowances	6	25	(19)	(6)
Receivable allowances	10	(499)	510	(524)
Provisions	47	58	(11)	52
Cut-off and provision additions	88	233	(146)	449
Stock options	887	795	(92)	572
Deferred taxes expense (income)	**-**	**-**	**-**	**-**
Net deferred tax assets / (liabilities)	**-**	**-**		
Reflected in the statement of financial position as follows:				
Deferred tax liabilities	-	-		
Deferred tax assets	-	-		
Deferred tax liabilities, net	**-**	**-**		

The Group offsets tax assets and liabilities if the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.

Deferred tax assets on temporary differences in the amount of TEUR 2,665 (2015: TEUR 3,749) and on tax loss carry forwards in the amount of TEUR 212,416 (2015: TEUR 185,972) have not been recognized as they may not be used with sufficient probability to offset future taxable profits. They have arisen in companies that have been loss making for some time, and there are no other tax planning opportunities or other evidence of recoverability in the near future.

The Group has tax losses which arose in different jurisdictions of TEUR 212,416 (2015: TEUR 185,972) that are available for offsetting against future taxable profits of the companies in which the losses arose as follows:

TEUR	**2016**	**2015**	**Restrictions on tax losses carried forward**
Germany	(81,705)	(61,846)	No
Brazil	(15,836)	(15,914)	No
France	(26,815)	(23,308)	No
Italy	(20,773)	(23,079)	No
Netherlands	(17,439)	(13,748)	No
Poland	(13,815)	(12,903)	Yes
Russia	(18,721)	(20,399)	Yes
Spain	(17,312)	(14,775)	Yes
Total	**(211,755)**	**(185,972)**	

The following tax losses expire as indicated:

TEUR	**2016**	**2015**	**Restrictions on tax losses carried forward**
Poland	(13,815)	(12,903)	Exp 2017-2021
Russia	(18,721)	(20,399)	Exp 2022-2026
Spain	(17,312)	(14,775)	Exp 2030-2034
Total	**(49,848)**	**(48,077)**	

Deferred tax assets have only been recognized in the equivalent amount of recognized deferred tax liabilities considering the minimum taxation rules.

The Group has determined that due to the losses carried forward there are no undistributed profits of its subsidiaries, joint venture or associate which are available for distribution in the foreseeable future.

27. Other financial commitments

Operating lease commitments

Future minimum lease payments under non-cancellable operating leases as at 31 December are as follows:

TEUR	**31/12/2016**	**31/12/2015**
Not later than 1 year	4,702	2,792
Later than 1 year and not later than 5 years	15,513	5,929
Later than 5 years	8,696	-
Total	**28,911**	**8,721**

The Group leases various offices, warehouses and equipment which have varying terms, notice periods and renewal rights.

Major operating lease agreements include the lease of the headquarter office in Munich, Dingolfinger Straße (from 2017: Moosacher Straße) and the warehouse in Großbeeren. Both lease agreements were non-cancellable until their respective maturity dates.

Finance lease commitments

Up to June 2015 the Group leased various items of plant and machinery under finance lease agreements, which were subsequently bought out. Additional financial leasing agreements do not exist.

28. Balances and transactions with related parties

Rocket Internet SE, Berlin, Germany is the largest investor of Westwing. All ventures that are controlled or jointly controlled by Rocket Internet SE and upon which Rocket Internet SE has significant influence, are classified as related parties of the Group.

As at 31 December 2016 and 2015, the outstanding balances with such related parties were as follows:

TEUR	**31/12/2016**	**31/12/2015**
Gross amount of trade receivables	-	26
Trade and other payables	9	18

The receivables from related parties arise mainly from sale transactions and are due two months after the date of sales. The receivables are unsecured in nature and bear no interest. As in prior year, no provisions are held against receivables from related parties.

The payables to related parties arise mainly from purchase transactions and are due two months after the date of purchase. The payables bear no interest.

The income and expense items with related parties were as follows:

TEUR	**2016**	**2015**
Sales of goods and services	146	62
Purchases of goods and services	138	524

Key management compensation

Key management includes 7 executives (2015: 8 executives). The compensation paid or payable to key management for employee services is shown below:

TEUR	**2016**	**2015**
Employee benefits:		
Salaries (short-term employee benefits)	1,242	1,201
Share-based compensation	1,327	79
Total	**2,569**	**1,280**

The remuneration of chief executives in accordance with Sec. 314 para. 1 HGB is not disclosed in these consolidated financial statements with reference to the exemption of such disclosure as per Sec. 286 para. 4 HGB.

29. Subsidiaries

The Group consolidated the following direct subsidiaries at 31 December:

Name	Country of incorporation and place of business	Registered office	Proportion of ownership interests held 31/12/2016	Proportion of ownership interests held 31/12/2015
Westwing Home & Living GmbH	GER	Munich	72.03	70.63
Westwing Commercial GmbH	GER	Berlin	100.00	100.00
Juwel 183. V V UG	GER	Berlin	100.00	100.00
Westwing Spain Holding UG	GER	Berlin	94.96	94.12
Westwing France Holding UG	GER	Berlin	94.56	94.56
Westwing Italy Holding UG	GER	Berlin	91.24	88.76
Westwing Netherlands Holding UG	GER	Munich	87.64	87.12
Tekcor 1. V V UG	GER	Bonn	92.76	90.96
Brillant 1256. GmbH & Co. Dritte Verwaltungs KG	GER	Berlin	88.80	88.03
Brillant 1256. GmbH	GER	Berlin	100.00	100.00
Bambino 65. V V UG	GER	Berlin	100.00	100.00
Bambino 68. V V UG	GER	Berlin	93.72	93.72
Bambino 66. V V UG	GER	Berlin	94.20	93.92
wLabels GmbH	GER	Berlin	100.00	100.00
VRB GmbH & Co. B-156 KG	GER	Berlin	90.00	90.00
VRB GmbH & Co. B-157 KG	GER	Berlin	77.30	75.99
VRB GmbH & Co. B-160 KG	GER	Berlin	97.50	90.00
VRB GmbH & Co. B-165 KG	GER	Berlin	90.00	90.00
VRB GmbH & Co. B-166 KG	GER	Berlin	90.00	90.00
VRB GmbH & Co. B-167 KG	GER	Berlin	90.00	90.00

In addition, the Group consolidated the following indirect subsidiaries at 31 December:

Name	Country of incorporation and place business	Registered office	Proportion of ownership interests 31/12/2016	Proportion of ownership interests 31/12/2015
WW E-Services Iberia S.L.	ES	Barcelona	94.96	94.12
WW E-Services Italy S.r.l.	IT	Milan	91.24	88.76
WW E-Services France SAS	FR	Paris	94.56	94.56
Westwing Home and Living Poland S.P.Z.O.O.	PL	Warsaw	92.76	90.96
WW E-Services The Netherlands B.V.	NL	Amsterdam	87.64	87.12
Westwing Comercio Varejista Ltda.	BR	Sao Paulo	77.29	75.98
Westwing Russia OOO	RU	Moscow	88.80	88.03

All subsidiary undertakings are included in the consolidation. The proportion of the voting rights in the subsidiary undertakings held directly by the parent company do not differ from the proportion of ordinary shares held. The parent company further does not have any shareholdings in the preference shares of subsidiary undertakings included in the Company.

30. Events after the balance sheet date

The following events arose after the close of the 2016 fiscal year with a significant impact on Westwing's future net assets, financial position and results of operations:

On 10 January 2017, Westwing and Kreos entered into an agreement on a credit line amounting to EUR 10.0m, in addition to an option agreement. The option is accounted for separately to the loan, as it is independent from the credit line. Drawing the loan is subject to management’s discretion and is possible until 1 January 2018. The value of the option is TEUR 210 and is recorded among financial liabilities in the 2017 fiscal year. On 8 March 2017, the first tranche of the credit line amounting to EUR 5.0m has been drawn. The cash inflow is expected to occur beginning April 2017.

Munich, 29 March 2017

Dr. Dr. Florian Drabeck	Stefan Smalla
Managing Director	Managing Director
Westwing Group GmbH	Westwing Group GmbH

Westwing Group GmbH
Berlin

Group Management Report

31 December 2016

Translation from the German language

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1. Basic information on Westwing

1.1 Business model

The Westwing Group (following: Westwing) is a leading eCommerce company for Home & Living products operating consistently throughout 14 countries on three continents.

The Munich-based Company was founded in 2011 by Delia Fischer, Georg Biersack, Matthias Siepe, Stefan Smalla and Tim Schäfer. The Company operates in the European key markets Germany, Austria and Switzerland (generally referred to as DACH), Italy, France, Spain, the Netherlands, Belgium, Poland, Czech Republic and Slovakia as well as the emerging markets Brazil, Russia and Kazakhstan. In most countries of operation, Westwing has been established as a leading company in the sector.

Westwing's first and largest business is a shopping club, offering its members[1] a curated selection of beautiful home accessories and furniture through daily sales, presented to the customer in an inspirational way as a 'shoppable magazine'.

Upon registration with Westwing and provision of an email address, members gain access to the website, daily sales, daily e mails and online magazine. As at December 2016 there is more than 30m Westwing members, with registrations continuing to increase.

Members 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. For members gained via paid channels, Westwing pays only at the time of registration and shows predictable returns on investment afterwards. More than 80% of orders in any given month are generated by repeat customers with strong engagement on the Westwing website, stimulated by inspiring content and attractive products.

Westwing creates daily newsletters to keep its members excited and convert them to loyal repeat customers. The focus on customer relationship management ('CRM') plays an important role in Westwing's strategy. Every morning, the members receive a newsletter containing information on the daily sales campaigns, which are only available for a limited time period. The products offered are high quality home and living products that come with a discount of up to 70% off the recommended retail price.

While customer taste and expectations differs 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, so does Westwing.

Westwing also offers its members a free online-based magazine where they have access to numerous decorating and furnishing tips, summaries of latest trends and background stories to the products offered that day. The aim of the magazine is to present a well-rounded product offering to customers, which provides them with inspiration to make every home a beautiful home.

[1] "Members" are defined by Westwing as people who have registered with their email address on its website.

Members can access Westwing's website and offerings via desktop as well as mobile, on smartphone-optimized or tablet-optimized sites, or via dedicated apps for iOS and Android. Consequently, Westwing profits from the ongoing shift to mobile usage, which presently constitutes more than 50% of total Westwing orders.

On a global basis, Westwing has more than 6,000 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 through an ever-fresh collection of curated home goods, thereby guarantee a unique look & feel of the website. The product offering and presentation of Westwing's website is continuously monitored and adjusted to suit the steadily increasing customer demands. The Company's buying team is decentralized into local buying teams, each of which is in charge of 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. One success factor of the business model is that Westwing places the order with the supplier only after 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.

Overall, Westwing offers a superior customer experience through a broad and inspiring product selection, attractive pricing, ubiquitous access and consideration of local taste.

In February 2015 Westwing launched the new online shop WestwingNow in Germany offering a permanent assortment of home accessories and furnishings complementary to the core Club model. No prior registration as a member is required to access the website. The Club model is geared towards spontaneous purchases, and while many people enjoy making such purchases, many customers also look for specific products that they need at a given point in time. WestwingNow is designed to attract such individuals as it offers products on a permanent basis. WestwingNow provides 'shoppable looks', showing how products offered could fit in the customers' home as a means of inspiration. Interior experts within Westwing design and furnish 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. The launch of WestwingNow as an additional, complementary model to the preexisting core business required significant up-front investment in team, technology and inventory, however many synergies as well as mutually reinforcing effects between the two business models were realized - in particular customer sharing and infrastructure. WestwingNow was successfully expanded to the Austrian and Swiss markets in 2016.

1.2 Company structure

The Company is headed by its holding company, Westwing Group GmbH, a limited liability company registered at Berlin District Court, Germany, under the number HRB 136693. The Company is headquartered at Moosacher Str. 88, 80809 Munich (formerly: Dingolfinger Str. 2, 81673 Munich), Germany since 10 January 2017.

As at 31 December 2016, 27 companies are fully consolidated in the accounts of the Westwing Group.

Over the past number of years various capital increases have taken place. By the end of 2016, more than 20 investors such as Rocket Internet, Kinnevik, Summit Partners or AI European Holdings have invested capital into Westwing.

1.3 Strategy and Objectives

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.

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 and reaching profitability. 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 members and 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 members through organic marketing and paid marketing channels.

Strong supplier relationships

The pro-active supply management has become increasingly important throughout the past year due to the continuously growing 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. The Company thereby positions itself as a crucial strategic partner for all Home & Living brands. With over 30m registered members, 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.

Exceptional execution

A key success factor for any online retailer is its logistics capabilities. Westwing has built an international logistics network with seven 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 was initially introduced in the first logistic center in 2014 and following further tailoring for additional functionality to perfectly support Westwing's business, implementation of this software was rolled out to further warehouses.

Westwing's experienced management team and the combination of strong data analytics, proficient creatives and experts on style are a key factor to achieve its objectives. In addition, Westwing aims to be an attractive employer. Since formation 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.

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 at the same time being agile and flexible.

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 in 2013 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 a software called "Partner Portal" to support and facilitate the cooperation with suppliers as well as allow analysis of suppliers, campaigns and products. The software also facilitates drop-shipment transactions, enabling Westwing to deliver products to customers faster.

To maintain its software architecture, Westwing has built a skilled in-house technology team that provides central support to all countries. During the fiscal year 2016, Westwing's intangible assets increased by EUR 1.0m to a total of EUR 3.6m. The share of capitalized development costs in total IT costs was 17.3%. Amortization of capitalized development costs amounted to TEUR 857.

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 conditions, the conditions in the Home & Living markets in general and the prospects for eCommerce and mobile channels.

Macro-economically, Europe developed favorably in 2016: Real GDP had estimated growth of 1.7%, providing favorable business climate in general. In Germany, Westwing's largest market, real GDP growth was also 1.7%, continuing the positive development of the previous years. However, in some markets there were macro-economic headwinds: Real GDP in 2015 is estimated to decline by -0.6% in Russia and by -3.5% in Brazil, reflecting high economic uncertainty in these markets[2]. The corresponding currencies - the Brazilian Real (BRL) and the Russia Ruble (RUB) - weakened against the Euro (EUR) in 2016. Specifically, the BRL / EUR exchange rate increased from 0.2319 in 2015 to 0.2915 in 2016 (increase of 26%) and the RUB / EUR augmented from 0.0124 in 2015 to 0.0156 in 2016 (increase of 26%). The impact of this development became particularly evident when translating the corresponding revenues from local currency to Euro.

[2] IMF World Economic Outlook (WEO) Update, January 2017

The global Home & Living market amounts to approximately EUR 550 billion[3] of which the 14 countries in which Westwing operates cover approximately EUR 200 billion. This market has 720m people.[4]

Currently the market for Home & Living products, compared to other retailing categories, does not yet show a high online penetration. However, it is shifting online at a faster pace than many other retail categories. This development is illustrated in recent analyses of the furniture market, considered as the most important reference for Westwing. In 2013, online sales represented only 2.6% of sales in the global furniture market.[5] Of the largest consumer categories that today have potential for immense online penetration, it is amongst the latest and least developed.

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.

- 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.

[3] Datamonitor, Morgan Stanley, management estimate
[4] International Monetary Fund: World Economic Outlook Database 2016
[5] CSIL survey: eCommerce for the furniture industry

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 early doubts.

No player in the Home & Living sector has yet taken a clear lead in the market at global or regional levels as has occurred in other categories, e.g. in consumer electronics, books or fashion and shoes. Westwing management expects that the Home & Living market will experience a similarly rapid development as with other consumer categories that are already more advanced in online penetration.

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

Westwing continued its positive development in 2016, which is also evidenced by improvement in its KPIs. The Company achieved revenue growth up to EUR 250.4m in 2016. This represents growth of 14.2% on the previous year (2015: EUR 219.2m). At 2015 FX rates, Westwing would have approximately EUR 3m higher revenue (i.e. EUR 253.2m in total for 2016) and revenue growth of 15.6% for 2016.

Furthermore, Westwing was able to improve the profitability metric EBITDA significantly in 2016. Adjusted EBITDA Margin[6], which is among the key metrics management uses to assess the profitability, improved from -22.8% in 2015 to -5.5% in 2016. In Q4/2016, the seasonally strongest quarter in the Home & Living market, Westwing reached a positive Adjusted EBITDA margin (2.8%). Free cash flow (i.e. the sum of operating and investing cash flow) was positive in Q4 and in every single month of the quarter.

Management believes that further strengthening of Westwing's market positioning in existing markets, strong customer loyalty and successful acquisition of new customers were driving this growth and improvement in profitability. Westwing maintains a careful focus on selecting beautiful products and presenting them in an inspiring way to its customers. 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 loyalty.

The DACH region (Germany, Austria and Switzerland) had the highest absolute contribution to total revenue. However, the well-balanced country portfolio provides a geographic diversification across three continents that mitigates effects from local seasonality, and opens significant growth opportunities for the future.

The customer base increased to 997k Active Customers[7] in 2016 (2015: 926k). Over 86% of the customers were women. Due to the high level of customer loyalty, repeat customers account for more than 80% of orders each month. An increasing share of Westwing members visits the site using Westwing's Apps, which had been downloaded 3.8m times by the end of 2016. In 2016, more than 50% of Westwing Club orders were generated via mobile devices such as smartphones and tablets.

Westwing continued to develop infrastructure and technology in 2016. In particular, through investments in technology, order fulfilment and employees, WestwingNow was already able to significantly expand its

[6] EBITDA Margin before share-based payments
[7] All members that have made at least one order with Westwing within the last 12 months

business in its second year. Furthermore, Westwing focused on simplification and standardization of processes and systems across the entire supply chain, and introduced a new software in its warehouse in Berlin. In additional to cost savings this resulted in an improved delivery quality.

Westwing was profitable (Adjusted EBITDA) and free cash flow positive for the first time in fourth quarter of 2016. Management however prioritizes long-term strategy over short term profitability. Consequently, Westwing further invested into measures that will drive future growth such as WestwingNow, and technology, which will help to bring down costs in the future. The successful fourth quarter of 2016 creates a favorable starting position for the 2017 fiscal year.

2.3 Remarks on the economic situation

Westwing's favorable development and ongoing improvement across many key dimensions in 2016 is apparent in the key performance indicators.

In the 2016 fiscal year, it was detected that transactions in the 2014 and 2015 fiscal years were not fully recorded in the consolidated financial statements as at December 31, 2014. As a result, in accordance with IAS 8 the relevant balances have been adjusted. This is apparent in the financial statements for the 2016 fiscal year in the opening balances for the comparative 2015 fiscal year. In addition, a partial reclassification of the cash flow from investing activities to the cash flow from financing activities took place in 2015 amounting to TEUR 1,542. A detailed disclosure and explanation of the changes can be found in section 2.3 of the notes under "Change in disclosure and adjustment of prior-year figures in accordance with IAS 8".

2.3.1. Results of operations

The Condensed Income Statement and other financial data shows steady growth in revenue and an absolute and relative improvement in margin (gross margin).

Condensed Income Statement (excluding expenses related to share based payments, which were removed for reasons of comparability and to add clarity to the results of operations)

EUR m	2016	2015	Change in %	2016 in % of Revenue	2015 in % of Revenue	Change in %pts
Revenue	**250.4**	**219.2**	**+14.2**	**100.0**	**100.0**	
Cost of sales	(144.1)	(126.6)	+13.8	-57.5	-57.8	+0.2
Gross Profit	**106.3**	**92.6**	**+14.8**	**42.5**	**-42.2**	**0.2**
Fulfilment expense[8]	(66.0)	(69.7)	-5.4	-26.3	-31.8	+5.5
Marketing expenses	(18.0)	(31.5)	-42.8	-7.2	-14.4	+7.2
General and administrative expenses[8]	(38.2)	(43.5)	-12.4	-15.2	-19.8	+4.6
Other operating expenses	(1.6)	(1.4)	+8.3	-0.6	-0.6	-0.0
Other operating income	0.9	0.9	-4.7	0.4	0.4	-0.0
EBIT Adjusted	**(16.5)**	**(52.6)**	**-68.7**	**-6.6**	**-24.0**	**+17.4**
Depreciation and Amortization	(2.7)	(2.7)	-1.5	-1.1	-1.2	+0.2
EBITDA Adjusted[8]	**(13.8)**	**(49.9)**	**-72.4**	**-5.5**	**-22.8**	**+17.3**

[8] Due to the adjustment for share-based compensation, the positions Fulfilment expense and General and administrative expenses cannot be reconciled to the Consolidated Income Statement. Share-based payment expenses in 2016 including social security expenses amounted to EUR 4.0m (2015: EUR 4.6m). The EBITDA including share-based payment expenses in 2016 amounted to EUR -17.8m (2015: EUR -54.6m).

Revenues for the year are comprised of the following:

TEUR	**2016**		**2015**	
Revenue from the sale of products	237,611	94.9%	208,587	95.2%
Revenue from shipping charges	14,455	5.8%	12,391	5.7%
Revenue from payment fees	641	0.3%	657	0.3%
Other revenue	1,662	0.7%	1,378	0.6%
Revenue decrease from the use of vouchers and kindness	(3,997)	-1.6%	(3,819)	-1.7%
Total	**250,372**		**219,194**	

The geographical split of the Group's revenue is as follows:

TEUR	**2016**		**2015**	
DACH	79,260	31.7%	61,707	28.2%
Other countries	171,112	68.3%	157,487	71.8%
Total	**250,372**		**219,194**	

The geographical regions are defined as follows:

- DACH includes revenue recognized in Germany, Switzerland and Austria.
- Other countries include revenue recognized in Spain, Italy, France, Poland, Czech Republic, Slovakia, Belgium and the Netherlands as well as Brazil, Russia and Kazakhstan.

In the reporting period, the following non-financial key performance indicators also showed a favorable development:

Key performance indicators

	2016	**2015**	**Change**
Total Members (in m)	30.2	26.4	+14.4%
Active Customers (in k)	997	926	+7.6%
Orders per Active Customer per year	2.8	2.8	+3.3%
Total Orders (in k)	2,772	2,547	+8.8%
GMV[9] (in EUR m)	267	234	+14.2%
Share of Orders via Mobile[10]	54.1%	50.7%	+3.4%pts

Westwing was able to grow revenue to EUR 250.4m, an increase of 14.2% (or approximately 15.6% at constant 2015 FX) compared to previous year (2015: EUR 219.2m) due to an increase in the number of active customers and loyalty from existing customers across its markets.

Westwing maintained a relatively stable gross profit margin at 42.5% in 2016 (2015: 42.2%).

Fulfillment expenses[11] (before share-based payments) as percent of revenue decreased by 5.5% from the 2015 fiscal year to 26.3%. This was primarily driven by a reduction of logistics costs and increased efficiency in the Berlin warehouse due to the introduction of improved software in the areas of customer care and logistics.

[9] Gross Merchandise Volume
[10] Share of Orders via Mobile per end of December 2016.
[11] Fulfilment expenses include shipping costs.

Marketing expenses were reduced by 42.8% to EUR 18.0m (2015: EUR 31.5m). Management focused on those marketing channels with most efficient impact on success. As a result, TV and several online marketing campaigns were reduced or waived allowing a significant reduction of marketing spend with limited impact on revenue.

General and administrative expenses (before share-based payment) decreased by 4.6% relative to revenue compared to the prior year. In absolute terms, these expenses decreased to EUR 38.2m in 2016 (2015: EUR 43.5m), which mainly resulted from improved effectiveness and efficiency and a lower average number of FTEs throughout the year.

Management relies on Adjusted EBITDA[12] as key metric to manage the Company's profitability. The Adjusted EBITDA margin improved by 17.3% from -22.8% in 2015 to -5.5% in 2016. The Adjusted EBITDA margin was +2.8% in the fourth quarter 2016, thus delivering a positive contribution to the operating result for the first time over a total quarter. The Adjusted EBITDA which was improved by EUR 36.1m reflects the additional economies of scale and the cost savings mentioned above. Amortization and depreciation were nearly the same, thus Adjusted EBIT in absolute figures has also improved by EUR 36.1m. This EBIT/EBITDA development had a positive impact on the net result, even if financial expenses increased, especially due to the 2016 financing round.

In the 2016 fiscal year the net loss amounted to EUR 24.9m, reducing by EUR 36.8m compared to the previous year. This development is primarily a result of higher revenue, an increased margin as well as reduction in marketing, fulfillment and administrative expenses.

Gross merchandise volume ('GMV'), defined as product value including all valid online orders (excluding the offline stores) after cancelations and before returns, increased from EUR 234m in 2015 to EUR 267m in 2016 representing growth of 14.2%. This increase was based on a total of 2.8m orders (2015: 2.5m) placed by 997k (2015: 926k) Active Customers. The number of Active Customers increased by 7.6% in 2016. The number of orders by Active Customer per year stayed at a constant level of 2.8. Orders are typically shipped within three to four weeks.

Sales via mobile devices in 2016 accounted for over 50% of revenue, steadily increasing throughout the year. This development is in line with management's observation that mobile channels will become increasingly important over time.

2.3.2. Financial position

Westwing's financial position was positively sustained in 2016, at all times maintaining sufficient cash reserves.

Condensed Statement of Cash Flows

EUR m	**2016**	**2015**
Cash flows from operating activities	(15.1)	(47.4)
Cash flows from investing activities	(4.6)	(4.8)*
Cash flows from financing activities	18.5	50.3*
Net decrease in cash and cash equivalents	(1.1)	(1.9)
Effect of exchange rate fluctuations on cash held	0.4	-0.1
Cash and equivalents at 1 January	18.7	20.7
Cash and equivalents at 31 December	17.9	18.7

*Prior year figures have been adjusted in accordance with IAS 8, refer Note 2.3.

[12] EBITDA KPI is adjusted for share based payment expenses. This concerns positions fulfilment expenses and general and administrative expenses.

Cash outflow from operating activities totaled EUR 15.1m (2015: outflow of EUR 47.4m), an improvement of EUR 32.3m. This is primarily due to the clearly reduced loss for the year. Working capital - defined as inventory (including prepayments) plus trade and other receivables less trade payables, accrued liabilities and customer prepayments - has decreased by EUR 0.8m to EUR 23.5m in 2016 (2015: EUR -22.7m).

Cash flows from investing activities was nearly unchanged and amounted to EUR -4.6m (2015: EUR - 4.8m). Westwing invested EUR 1.7m in tangible assets such as IT infrastructure and warehouse equipment and EUR 2.1m in intangible assets, primarily internally developed software.

Free cash flow (the sum of operating and investing cash flow) was positive in the fourth quarter of2016, supporting Westwing's successful development towards profitability.

The successful financing round in May 2016, raising further funding from investors of EUR 24.0m, had a major impact on cash flow from financing activities which totalled net inflows of EUR 18.5m (2015: EUR 50.3m). The financing round in May 2016 is classified as equity according to German Commercial Code (*Handelsgesetzbuch*), while recognized as debt and compounded in accordance with IAS 32.21. Outflows for repayments of loans, repurchase of shares and the purchase of treasury shares is also included within financing activities. In addition, we refer to the subsequent events with respect to the financing situation.

Westwing consistently ensured that sufficient liquid funds were available to fund operations. Investors were approached with sufficient lead-time and financing rounds were successfully raised. Westwing was able to meet its payment obligations at all times.

2.3.3. Total assets

Westwing's net assets evidence an asset-light business model.

Condensed Statement of Financial Position

EUR m	**2016**	**2016 in % of Total**	**2015**	**2015 in % of Total**	**Change in EUR m**	**Change in %**
Total Assets	59.0	100.0	53.0*	100.0	6.0	11.3
Non-Current Assets	13.6	23.0	11.2	21.1	2.4	21.5
Current Assets	45.4	77.0	41.8*	78.9	3.6	8.6
Total Liabilities + Equity	59.0	100.0	53.0	100.0	6.0	11.3
Equity	(39.7)	(67.3)	(12.7)*	(23.9)	(27.1)	213.9
Non-Current Liabilities	37.8	64.2	10.8	20.5	27.0	249.1
Current Liabilities	60.8	103.2	54.8*	103.4	6.1	11.0

*Prior year figures have been adjusted in accordance with IAS 8, refer Note 2.3.

Westwing's total assets amounted to EUR 59.0m in 2016, a slight increase when compared to the previous year (2015: EUR 53.0m), in correlation with the business volume. The Company's assets mainly consist of current assets including inventory, trade receivables as well as cash and cash equivalents.

Current assets accounted for EUR 45.4m on 31 December 2016 (2015: EUR 41.8m). Cash and equivalents slightly decreased to EUR 17.9m (2015: EUR 18.7m). Inventory increased to EUR 18.7m (2015: EUR 14.7m) due to overall revenue growth and the growth of WestwingNow which holds parts of its offering available in stock. Trade and other receivables increased to EUR 6.9m (2015: EUR 5.8m) primarily due to the increased revenue volume.

Non-current assets mainly consist of property, plant and equipment as well as intangible assets. In 2016, net investments in property, plant and equipment totaled EUR 0.4m while intangible assets, primarily representing capitalization of software development, increased by EUR 1.0m.

Current liabilities increased by EUR 6.1m in 2016 due to the higher business volume. Trade payables increased from EUR 25.1m in the prior year to EUR 29.5m on 31 December 2016. Advance payments from customers increased by EUR 1.3m due to a higher amount of open customer orders at the end of the year.

The increase in non-current liabilities to EUR 37.8m (2015: EUR 10.8m) was mainly driven by a financing round in May 2016 of EUR 24.0m. Cash-settled share-based payments were reduced by EUR 0.9m.

The Company's equity decreased from EUR -12.7m in 2015 to EUR -39.7m in 2016. The movement was mainly due to negative earnings for the year and reflects the accumulated losses of previous years as well as the current loss. Other comprehensive income, mainly attributable to foreign exchange impact resulting from currency translations from the Russian Ruble (RUB) to Euro (EUR), showed a positive amount of EUR 6.8m. The May 2016 financing round is classified as equity according to German Commercial Code (*Handelsgesetzbuch)*, while treated as debt according to IAS 32.21.

2.4 Employees

At the end of December 2016, Westwing employed 1,453 full time equivalents (following: FTE's[13]), which represents a stable number of employees compared to 1,473 FTEs at the end of 2015.

In December 2016 most staff were employed by the Munich-based legal entities Westwing Group GmbH (266 FTEs) and Westwing Home & Living GmbH in charge of the DACH business (229 FTEs), as well as the Brazilian entity (280 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 2015 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.
- On a regular basis, the Company undertakes employee surveys to understand the current atmosphere and gather valuable feedback, upon which it is committed to act in a timely manner.
- Westwing offers internal 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.

[13] According to Westwing definition, one FTE is equivalent to one employee working full-time.

Westwing attracts the most talented individuals in various ways. A very attractive and appealing career page has been established, 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.

3. Subsequent events

Subsequent to the end of the 2016 financial year, the following events occurred that have a significant impact on Westwing's future results of operations, financial position and net assets:

On 10 January 2017, Westwing and Kreos entered into an agreement granting a credit line amounting to EUR 10.0m to Westwing, in addition to an option agreement. The option is accounted for separately to the loan, as it is independent from the credit line. Drawing the loan is subject to management's decision and is available until 1 January 2018. The value of the option is TEUR 210 and has been recorded as a financial liability in FY17. On 8 March 2017, the first tranche of the credit line was drawn, amounting to EUR 5.0m. The cash inflow is planned for beginning of April 2017.

4. 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. 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.

4.1 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 discuss 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.

4.2 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 2016 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 however comfortable that existence-threatening risks for the Company in 2017 do not exist. Management believes that it has taken all necessary precautions to address existing risks and reduce their possible impact.

4.2.1. 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 very 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 approving the Financial Statements for the year ended 31 December 2016, the Company had sufficient cash reserves and freely available committed lines of credit to meet all of its financial obligations. The negative equity at year-end had no immediate impact on liquidity as this is primarily driven by the financing round from May 2016 that is shown as debt instead of equity in accordance with IFRS, as well as the share-based payments. Both elements will lead to either contingent payments or no cash outflow in future years.

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.

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.

4.2.2. Strategic and operational risks

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 five years the Company has been able to create significant assets: Westwing is THE digital consumer brand for Home & Living eCommerce. Compared to a new entrant, Westwing has access to a large supplier base, many of which are tied to and integrated process-wise with Westwing. Furthermore, it has 997k Active Customers, an established and efficient logistics and supply chain set-up, highly experienced and well-trained staff and customized IT-architecture. All these factors represent barriers of entry for new companies.

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. Westwing closely monitors customer satisfaction based on regular surveys and behavior of its members, to be able to quickly react to customer feedback and changes in behavior. 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 for loyal customers placing 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 100% 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 seven 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 they career goals, e.g. leadership development programs, in-house and external trainings, regular feedback and evaluation rounds and employee surveys.

4.2.3. Technology risks

Website downtime

As an online retailer, Westwing is dependent on the functionality of hardware and software. If the website is unavailable, customers can not place orders. This not only can 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 99.9% during the 2016 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 of compromise of data security. When placing orders on the website, members 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 software 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.

4.2.4. Risks arising from the use of financial instruments

In 2015 and 2016, 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 valuation of the Kreos option agreement is carried out at fair value and is measured using the company valuation. The value of the liability from the May 2016 financing round also includes a component of entity valuation, however is recognized at amortized cost. According to management, the Group does not incur an increased risk, as primarily the shareholders bear the risk relating to these financial instruments.

4.3 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: external opportunities such as market growth and internal opportunities, such as strengthening the brand and expanding into new sectors.

4.3.1. 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.
- 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.

4.3.2. Strategic and operational opportunities

WestwingNow Shop

The majority of the information provided in this management report focuses on Westwing’s shopping club operations, which has been Westwing’s primary business. In February 2015, Westwing launched the new online shop WestwingNow in Germany, offering a permanent assortment of home accessories and furnishings. In 2016, the first full business year of the shop, WestwingNow achieved 15.1 million sales in Germany, Austria and Switzerland. The WestwingNow shop was introduced to Switzerland in 2016. WestwingNow offers a permanent range of home accessories and furnishings. No prior registration is necessary to access the website. Management is convinced that this new business is complementary and thus a natural addition to the existing business model. This new business provides additional opportunities of growth and expansion.

The club model is geared towards spontaneous purchases and while people enjoy making such purchases, customers may look for specific products that they need at a given point in time. WestwingNow is designed to attract such individuals as it offers the products on a permanent basis.

While the launch of this new model required significant up-front investment in the team, technology and inventory, there are many synergies as well as mutually reinforcing effects between the two business models:

- Customer sharing: Westwing can refer its existing, loyal members from the club to WestwingNow, thus increasing its share of the customer’s wallet. This allows customers to benefit from the extended, permanent assortment and brings WestwingNow a significant share of its traffic without additional costs.

- Large supplier base: For the products offered on the WestwingNow website, the Company can refer back to its global supplier network. As the customer base is increased, suppliers will be keen to work with Westwing on this extended setup.
- Experience with technology, logistics and payment processes: While the products are offered permanently instead of temporarily, the back end processes such as updating the website, supply chain and payment processing are similar to the processes in place for the club and consequently limited additional work is required to organize these aspects for the shop.
- Employees: For over five years, Westwing has built a growing eCommerce business and has gathered valuable experience of what it takes to build a successful online retailer of Home & Living products. This experience and knowledge is available to the shop as employees can work on both models.

Private Label

Besides offering products from its large supplier base, Westwing also offers an increasing number of products under its own brand names. For example, products of the brands 'Port Maine' or 'by46' are proprietary Westwing products. 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.
- Furthermore, 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 has built a dedicated team that is driving the Private Label business forward from Westwing's headquarters in Munich.

Brand

Westwing is THE digital consumer 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 2016, more than 50% 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 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 three, 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.

5. Outlook

Management considers the development of the financial and economic position of Westwing and the market environment in 2016 as positive. The Group is well financed and has built solid structures and processes, which will support further growth and the path towards profitability. On Group level, the fourth quarter was already profitable in respect of operating result (Adjusted EBITDA[14]) and free cash flow, partially supported by the seasonality towards year-end. Westwing is expected to continue this sustained growth in 2017.

Westwing's management expects the positive development of the online Home & Living market to continue in 2017. This expectation is based on the relevant geographical markets observed in the last few years.

Westwing has a unique competitive position in all of its markets and a strong position in the important mobile channel, with orders via mobile channels already exceeding 50%. Management expects that this will translate into continued growth.

[14] EBITDA before share based payment serves as a performance indicator allowing a better evaluation of the course of the business.

For 2017, Westwing plans an operating result (Adjusted EBITDA) that is expected to be only in the lower or mid-single digit negative million Euro range. In order to achieve this, key priorities were set in the following areas:

- Strengthening of the core 'Club' business by an enlarged offering, fresh trends and attractive brands for a superior customer experience,
- Profitability of the core business by better margins along the entire supply chain, and
- Investment in growth platforms in the areas of marketing, Private Label and WestwingNow as well as in technology and infrastructure.

Driven by the focus on profitability, management expects a slightly lower revenue growth rate compared to that realized in 2016.

Gross merchandise volume ('GMV') and total orders are expected to grow slightly in line with revenue. In addition the average order value is planned to remain stable at the level observed throughout 2016.

Increasing revenue and strengthened contribution margins will be the base for a moderate improvement of Adjusted EBITDA, which will result accordingly in an improved EBITDA margin. 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 2017 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 moderate improvement of Adjusted EBITDA and relatively stable investing activities.

In summary it can be stated that the outlook set in the 2015 fiscal year for the 2016 fiscal year was reached for revenue and exceeded relating to Adjusted EBITDA. In May 2016, a financing round over EUR 24.0m was successfully completed which provided Westwing with additional funds to finance investments in profitable growth. Management believes that Westwing has the necessary operational and financial resources to realize the planned outcomes for 2017.

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