# Westwing Group GmbH
Berlin

# Consolidated Financial Statements and Group Management Report

31 December 2017

# Westwing Group GmbH
## Berlin

## Consolidated Financial Statements

## 31 December 2017

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## Consolidated Income Statement

For the period from 1 January to 31 December 2017 and 2016

| *TEUR* | Notes | 2017 | 2016 |
|---|---|---|---|
| Revenue | 4 | 265,840 | 250,372 |
| Cost of sales | | (151,705) | (144,081) |
| **Gross profit** | | **114,135** | **106,291** |
| Fulfilment expenses | | (56,959) | (53.558)* |
| Marketing expenses | | (15,836) | (18,000) |
| General and administrative expenses | | (61,422) | (54.570)* |
| Other operating expenses | 7 | (2,012) | (1,570) |
| Other operating income | 7 | 754 | 942 |
| **Operating result** | | **(21,340)** | **(20,466)** |
| Finance costs | 8 | (10,030) | (6,147) |
| Finance income | 8 | 64 | 65 |
| Other financial result | 8 | 156 | 2,032 |
| Financial result | | (9,810) | (4,050) |
| **Result before income tax** | | **(31,150)** | **(24,516)** |
| Income tax expense | 25 | (399) | (392) |
| **Result for the year** | | **(31,549)** | **(24,908)** |
| **Loss attributable to:** | | | |
| Owners of the Company | | (29,188) | (22,944) |
| Non-controlling interests | | (2,361) | (1,964) |
| **Result for the year** | | **(31,549)** | **(24,908)** |

* Prior-year figures adjusted. We refer to Note 2.3 in the notes.

## Consolidated Statement of Comprehensive Income

For the period 1 January to 31 December 2017 and 2016

| *TEUR* | **2017** | **2016** |
|---|---|---|
| **Result for the year** | **(31,549)** | **(24,908)** |
| **Other comprehensive income:** | | |
| **Items that subsequently will be reclassified to the income statement:** | | |
| Exchange translation differences of foreign operations | 446 | (2,787) |
| **Other comprehensive income for the year, net of tax** | **446** | **(2,787)** |
| **Attributable to:** | | |
| Owners of the Company | 343 | (2,373) |
| Non-controlling interests | 103 | (414) |
| **Total comprehensive loss for the year** | **(31,103)** | **(27,695)** |
| **Attributable to:** | | |
| Owners of the Company | (28,846) | (25,317) |
| Non-controlling interests | (2,257) | (2,378) |
| **Total comprehensive loss for the year** | **(31,103)** | **(27,695)** |

***Consolidated Statement of Financial Position***

| TEUR | Notes | 31/12/2017 | 31/12/2016 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 9 | 6,060 | 6,494 |
| Intangible assets | 10 | 4,027 | 3,632 |
| Trade and other receivables | 11 | 3,747 | 3,457 |
| **Total non-current assets** | | **13,834** | **13,583** |
| **Current assets** | | | |
| Inventories | 12 | 21,694 | 16,757 |
| Prepayments on inventories | 12 | 2,358 | 1,971 |
| Trade and other receivables | 11 | 8,954 | 6,921 |
| Other assets | 13 | 2,057 | 1,844 |
| Cash and cash equivalents | 14 | 13,831 | 17,899 |
| **Total current assets** | | **48,894** | **45,392** |
| **Total assets** | | **62,729** | **58,975** |
| **Equity/(deficit)** | | | |
| Share capital | 15 | 92 | 92 |
| Treasury shares | | (998) | (998) |
| Share premium | 15 | 210,343 | 210,343 |
| Other reserves | 15 | 22,671 | 17,765 |
| Retained earnings | | (269,292) | (240,758) |
| Other comprehensive income (OCI) reserve | 15 | 7,182 | 6,840 |
| **Equity/(deficit) attributable to the owners of the Company** | | **(30,002)** | **(6,717)** |
| **Non-controlling interests** | | **(35,758)** | **(32,996)** |
| **Total equity/(deficit)** | | **(65,760)** | **(39,713)** |
| **Non-current liabilities** | | | |
| Borrowings | 17 | 4,401 | - |
| Finance lease liabilities | 19 | 45 | - |
| Other financial liabilities | 18, 20 | 35,495 | 27,901 |
| Other non-financial liabilities | 20 | 15,735 | 9,600 |
| Provisions | 21 | 242 | 337 |
| **Total non-current liabilities** | | **55,918** | **37,838** |
| **Current liabilities** | | | |
| Borrowings | 17 | 7,069 | - |
| Trade payables and accruals | 20 | 39,717 | 38,720 |
| Customer prepayments | 20 | 11,721 | 10,400 |
| Other financial liabilities | 20 | 1,586 | 868 |
| Other non-financial liabilities | 20 | 9,542 | 9,313 |
| Provisions | 21 | 2,937 | 1,548 |
| **Total current liabilities** | | **72,571** | **60,849** |
| **Total liabilities** | | **128,489** | **98,687** |
| **Total equity and liabilities** | | **62,729** | **58,975** |

## Consolidated Statement of Changes in Equity

| *TEUR* | Notes | Share capital | Share premium | Treasury shares | Other reserves | Retained earnings* | Other comprehensive income (OCI) reserve | Total | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Attributable to the owners of the Company | | | | | | | | |
| **As at 1 January 2016** | | **92** | **210,343** | **-** | **17,279** | **(216,262)** | **9,138** | **20,589** | **(33,241)** | **(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)** |
| 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 / 1 January 2017** | | **92** | **210,343** | **(998)** | **17,765** | **(240,758)** | **6,840** | **(6,717)** | **(32,996)** | **(39,713)** |
| Result for the year | | - | - | - | - | (29,188) | - | **(29,188)** | (2,362) | **(31,549)** |
| Other comprehensive income for the year | | - | - | - | - | - | (343) | **(343)** | (103) | **(446)** |
| **Total comprehensive income for the year** | | **-** | **-** | **-** | **-** | (29,188) | (343) | **(28,846)** | **(2,259)** | **(31,103)** |
| Share-based compensation | 16 | - | - | - | 4,654 | - | - | **4,654** | 206 | **4,860** |
| Acquisitions / disposals of non-controlling interest / other | | - | - | - | 253 | 654 | - | **907** | (711) | **196** |
| **As at 31 December 2017** | | **92** | **210,343** | **(998)** | **22,671** | **(269,292)** | **7,182** | **(30,002)** | **(35,760)** | **(65,760)** |

## Consolidated Statement of Cash Flows

| *TEUR* | Notes | 2017 | 2016 |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Result before income tax | | (31,150) | (24,516) |
| *Adjustments for:* | | | |
| Depreciation and impairment of property, plant and equipment | 9 | 1,880 | 1,630 |
| Amortization and impairment of intangible assets | 10 | 3,533 | 1,046 |
| Loss/(gain) on disposal of property, plant and equipment | | 182 | (7) |
| Share-based compensation expenses | 16 | 10,995 | 4,011 |
| Fair value loss on financial liabilities | | 542 | 33 |
| Finance income | 8 | (64) | (65) |
| Finance costs | 8 | 9,464 | 6,114 |
| Foreign currency effects | | (156) | (1,958) |
| Other non-cash related adjustments | | (21) | (1,260) |
| Changes in provisions and pensions | | 1,297 | (194) |
| Cash effective operating loss before changes in working capital | | (3,498) | (15,166) |
| *Adjustments for changes in working capital:* | | | |
| Changes in trade and other receivables and prepayments | | (2,620) | 327 |
| Changes in inventories | | (5,701) | (3,288) |
| Changes in trade and other payables | | 4,564 | 4,688 |
| **Cash used in operations** | | **(7,255)** | **(13,459)** |
| Tax paid | | (508) | (392) |
| **Net cash flows used in operating activities*** | | **(7,762)** | **(13,852)** |
| **Investing Activities:** | | | |
| Proceeds from sale of property, plant and equipment | | 71 | 52 |
| Rent deposits | | 185 | - |
| Purchase of property, plant and equipment | | (1,532) | (1,681) |
| Security deposits paid | | (367) | (860) |
| Purchase of intangible assets | | (3,929) | (2,085) |
| Interest received* | | 64 | 65 |
| **Net cash flows used in investing activities*** | | **(5,507)** | **(4,509)** |
| **Financing activities:** | | | |
| Proceeds from financing round | | - | 23,068 |
| Sale/(Purchase) of minority interests | | 197 | (1,850) |
| Interest and other finance charges paid* | | (1,894) | (1,281) |
| Proceeds/(Repayment) of borrowings | | 11,470 | (1,708) |
| Payments of finance lease liabilities | | (6) | - |
| Purchase of treasury shares | | - | (998) |
| **Net cash flows from financing activities*** | | **9,767** | **17,231** |
| **Net change in cash and cash equivalents** | | **(3,502)** | **(1,130)** |
| Effect of exchange rate fluctuations on cash held | | (566) | 355 |
| Cash and cash equivalents at 1 January | 14 | 17,899 | 18,674 |
| **Cash and cash equivalents at 31 December** | | **13,831** | **17,899** |

* Prior-year figures adjusted (see note 2.3).

# Notes to the Consolidated Financial Statements 2017

## 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 2017 were authorized for issue by management to the shareholders meeting on 11 May 2018. Subsequently, the consolidated financial statements were updated. The changes were related to a reallocation of share based payment expenses for the fiscal year 2017 increasing the position "fulfilment expenses" by TEUR 1,576 and decreasing the position "general and administrative expenses" in the same amount as well as the resulting explanations therefrom in the notes to the consolidated financial statements. Furthermore, disclosures in the notes to the consolidated financial statements in the section "Balances and transactions with related parties" have been extended or changed.

The Group is one of the leading eCommerce companies in the home & living sector. Westwing is an integrated Home & Living company, which offers its customers a broad and diverse range of beautiful Home & Living products.

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. As at 31 December 2017, 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.

## Summary of significant accounting policies

### 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 315e 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 2017 financial year had no impact on the financial statements. In addition, we would like to refer to chapter 2.3 'Change in accounting policies according to IAS 8' for changes in the presentation of the consolidated statement of cash flows and the reporting of certain cost elements.

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 these 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.

**New standards, amendments and interpretations**

The following section will cover any new standards and changes which have been issued but are not yet mandatory to apply for the period starting at the 1 January 2017. These standards will come into effect on a later date.

The table below gives an overview of any new standards and changes to existing standards that are relevant to the Group and the expected impact of these.

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 31/12/2017 | 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 | Yes | Major effects (details see below) |
| IFRS 2 | Classification and Measurement of Share-based Payment Transactions | 1/1/2018 | Yes | No significant effects |
| IFRIC 23 | Uncertainty over income tax treatments | 1/1/2019 | 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 will 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 early adopts the new standard as of 1 January 2018. The modified retrospective approach is used as transition method.

The following standards were mandatory to apply already as of 1 January 2017, but did not have a material impact on the consolidated financial statements.

| | | IASB Mandatory application | Adoption by the EU by 31/12/2017 | Expected effects |
|---|---|---|---|---|
| IFRS 12 | Disclosure of interest in other entities | 1/1/2017 | Yes | No significant effects |
| IAS 12 | Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealized Losses | 1/1/2017 | Yes | No significant effects |
| IAS 7 | Amendments to IAS 7: cash flow statements | 1/1/2017 | Yes | No significant effects |

**Changes in accounting policies according to IAS 8**

In the reporting period of 2017, the reporting of interest income and interest expenses was adjusted in the consolidated statement of cash flows. IAS 7 allows to present the interest income and –expense in either the operating cash flow, or to present interest income in the cash flow used in investing activities and interest expense in the cash flow from financing activities. The second option is a better display of the cash flows at Westwing. Therefore, the presentation of these cash flows has been adjusted in accordance with IAS 8 as of the 1 January 2017 and onwards. Regarding the reporting period for the year 2016, interest income of TEUR 65 and interest expense of TEUR 1,281 have been reclassified from cash flow from operating activities to cash flow from investing activities or cash flow from financing activities respectively.

Furthermore, it was decided to show all expenses of buying and personnel expenses related to management functions for logistics in general and administrative expense from now on, as this is the standard in the sector and as these costs are not directly linked to fulfilment of the order. In addition, this approach is used by competitors. For the financial year 2016 EUR 12.1m were reclassified from fulfilment expenses to general and administrative expenses.

**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 2017, the Company controls 20 domestic subsidiaries (2016: 20), as well as maintaining indirect control of seven foreign subsidiaries (2016: 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 | |
|---|---|---|---|---|
| | **31/12/2017** | **31/12/2016** | **2017** | **2016** |
| Brazilian Real | 3.97 | 3.43 | 3.60 | 3.86 |
| Russian Ruble | 69.39 | 64.30 | 65.88 | 74.22 |
| Polish Zloty | 4.18 | 4.41 | 4.26 | 4.36 |

## 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 deferred income is shown separately on the balance sheet as customer prepayments.

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 the proceeds of the sale of property, plant and equipment with the carrying amount of the disposed asset. The gains and losses are recognized in the consolidated income statement of the year that the disposal took place.

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 was 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 have 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 to 5 |
| 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 2017, the Group has a finance lease to the amount of TEUR 45 (2016: none).

## 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 suppliers 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 14).

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 agreements entered into with Kreos Capital IV (Luxembourg) S.à r.l. (referred to as “Kreos”) entail warrant agreements whereby Kreos has the option to be provided with shares in Westwing upon execution of the warrants. The warrants are attached to the borrowings, but are not closely related to these instruments. As a result, the warrants from 2013 and 2017 have been classified as financial liabilities and are accounted for separately from the loans.

Given the connection to the moving share price and the variability of the value of the instruments, the definition of a derivative under IAS 39 was met and the warrants have been classified as financial liabilities held-for-trading. Consequently, they are 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.

### 2.21 Notes to the consolidated statement of cash flows

The foreign exchange related changes in cash and cash equivalents are mainly related to the Brazilian subsidiary. The change in loan liabilities results primarily from the cash receipts and disbursements shown in the cash inflow from financing activities.

## 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.

In the 2017 financial year, the assumptions for an upcoming IPO (initial publish offering) were analyzed again. As a result, the most probable date for an IPO was postponed. This led to changes in the valuation of share-based compensation and the May 2016 financing round (see Note 2.14). If the date was not changed in 2017, this would have the following impact on the related positions in the balance sheet or in the income statement:

| TEUR | 31 December 2017 (reported) | Difference | 31 December 2017 (before estimation change) |
|---|---|---|---|
| Share-based compensation reserve | 31,009 | 1,166 | 32,175 |
| Net result | (31,549) | (2,931) | (34,480) |
| ***Equity*** | ***(65,760)*** | ***(1,765)*** | ***(67,525)*** |
| Other financial liabilities | 37,081 | 1,765 | 38,846 |
| ***Non-current liabilities*** | ***128,489*** | ***1,765*** | ***130,254*** |
| | | | |
| Administrative expenses | (61,422) | (1,166) | (62,588) |
| Interest expenses | (10,030) | (1,765) | (11,795) |
| **Net result** | **(31,549)** | **(2,931)** | **(34,480)** |

Management also makes certain judgments 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 provided that 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 compensation (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* | **2017** | **2016** |
|---|---|---|
| Revenue from the sale of products | 253,079 | 237,611 |
| Revenue from shipping charges | 13,832 | 14,455 |
| Revenue from payment fees | 544 | 641 |
| Other revenue | 2,427 | 1,662 |
| Sales reductions | (4,043) | (3,997) |
| **Total** | **265,840** | **250,372** |

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

| *TEUR* | **2017** | **2016** |
|---|---|---|
| DACH | 97,634 | 79,260 |
| International | 168,206 | 171,112 |
| **Total** | **265,840** | **250,372** |

The geographical regions are defined as follows:

- "DACH" includes Germany, Switzerland and Austria.
- "International" includes Spain, Italy, France, Poland, Czech Republic, Slovakia, Belgium and the Netherlands as well as 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* | **2017** | **2016** |
|---|---|---|
| Rent and other operating lease expenses | 7,252 | 5,552 |
| Depreciation and amortization | 5,414 | 2,675 |
| Loss / (gain) from revaluation of a financial liability | 8,136 | 4,928 |
| Auditor's remuneration | | |
| Audit cost according to Sec. 314 para. 1 No. 9a HGB | 181 | 250 |
| Of which relates to previous periods TEUR 22 (2016: TEUR 9) | | |
| Other services according to Sec. 314 para. 1 No. 9d HGB | - | 2 |

## 6 Personnel expenses

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

| *TEUR* | **2017** | **2016** |
|---|---|---|
| Wages, salaries and other short-term employee benefits | 41,603 | 42,874 |
| Share-based compensation expenses | 10,995 | 4,011 |
| Social security and similar expenses | 9,839 | 9,693 |
| **Total** | **62,437** | **56,577** |

In 2017, Westwing employed on average 1,412 employees (2016: 1,523 employees) in the following functional areas:

| | **2017** | **2016** |
|---|---|---|
| Fulfilment | 488 | 891* |
| Marketing | 141 | 115 |
| Administration | 783 | 517* |
| **Total** | **1,412** | **1,523** |

*Change in the number of the previous year, we refer to Note 2.3.

## 7 Other operating income and expenses

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

| *TEUR* | **2017** | **2016** |
|---|---|---|
| Rental income | 296 | 288 |
| Income from release of provisions | 227 | 243 |
| Other operating income | 231 | 411 |
| **Total** | **754** | **942** |

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

| *TEUR* | **2017** | **2016** |
|---|---|---|
| Bad debt expenses | 772 | 691 |
| Other operating expenses | 1,240 | 879 |
| **Total** | **2,012** | **1,570** |

## 8 Financial result

The financial result for the year comprises the following:

| TEUR | **2017** | **2016** |
|---|---|---|
| Finance income: | | |
| Interest income | 64 | 65 |
| **Total finance income** | **64** | **65** |
| Finance costs: | | |
| Interest expenses | (9,464) | (6,114) |
| Finance lease interest | - | - |
| Other financial expenses | (566) | (33) |
| **Total finance costs** | **(10,030)** | **(6,147)** |
| **Net finance result** | **(9,966)** | **(6,082)** |
| **Other financial result:** | | |
| Currency exchange gains | 1,082 | 4,303 |
| Currency exchange losses | (926) | (2,271) |
| **Other financial result** | **156** | **2,032** |
| **Financial result** | **(9,810)** | **(4,050)** |

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 2017 interest was calculated on a compounding basis resulting in a financial expense of EUR 7,6m (2016: 4.9m). In addition, two tranches (total EUR 10.0m) of a loan with Kreos were drawn in the 2017 financial year. Interest expense resulting from this amounted to EUR 0.7m.

Interest expenses related to the Kreos loan agreement from 2013 totaled TEUR 122 in 2016. 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 the fair values of the 2013 and 2017 Kreos option agreements.

## 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 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** |

| *TEUR* | **Leasehold improvements** | **Furniture, fittings and equipment** | **Assets under finance lease** | **Prepayments on PPE** | **Total** |
|---|---|---|---|---|---|
| Cost at 1 January 2017 | 2,636 | 9,455 | - | 3 | 12,094 |
| Additions | 638 | 735 | 51 | 158 | 1,582 |
| Transfers | - | 158 | - | (158) | - |
| Disposals | (41) | (207) | (1) | - | (250) |
| Exchange adjustment | (46) | (126) | - | - | (172) |
| Cost at 31 December 2017 | 3,187 | 10,015 | 49 | 3 | 13,255 |
| Accumulated depreciation at 1 January 2017 | 1,514 | 4,087 | - | - | 5,600 |
| Depreciation charge | 404 | 1,392 | 5 | - | 1,801 |
| Transfers | - | 79 | - | - | 79 |
| Disposals | (33) | (146) | - | - | (179) |
| Exchange adjustment | (47) | (59) | - | - | (107) |
| Accumulated depreciation at 31 December 2017 | - | - | 5 | - | 7,195 |
| **Carrying amount at 31 December 2017** | **1,350** | **4,663** | **45** | **3** | **6,060** |

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 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 |
| 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** |

| *TEUR* | **Software and licenses** | **Trademarks** | **Internally generated intangibles** | **Intangibles under development** | **Total** |
|---|---|---|---|---|---|
| Cost at 1 January 2017 | 721 | 275 | 5,114 | 284 | 6,394 |
| Additions | 109 | - | 516 | 3,304 | 3,929 |
| Transfers | - | - | 2,569 | (2,569) | - |
| Disposals | (17) | - | - | (1,010) | (1,027) |
| Exchange adjustment | (10) | - | 6 | - | (4) |
| Cost at 31 December 2017 | 803 | 275 | 8,205 | 8 | 9,292 |
| Accumulated depreciation at 1 January 2017 | 440 | 78 | 2,244 | - | 2,762 |
| Amortization charge | 242 | 28 | 2,244 | - | 2,513 |
| Impairment charge | - | - | 10 | 1,010 | 1,020 |
| Transfers | (84) | - | 84 | - | - |
| Disposals | (16) | - | - | (1,010) | (1,026) |
| Exchange adjustment | (8) | - | 4 | - | 4 |
| Accumulated depreciation at 31 December 2017 | 574 | 106 | 4,585 | - | 5,265 |
| **Carrying amount at 31 December 2017** | **229** | **169** | **3,620** | **8** | **4,027** |

Additions to internally generated intangibles and intangibles under development of TEUR 3,929 (2016: 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.

In 2017, the value of assets under development were analyzed. Westwing decided not to continue with the capitalization of most of the assessed assets. As a result, the book values of these assets have been written off which has led to an impairment charge of TEUR 1,010.

In prior year there were no indicators that would indicate the impairment of intangible assets.

## 11 Trade and other receivables

Trade and other receivables are comprised of the following:

| *TEUR* | **31/12/2017** | **31/12/2016** |
|---|---|---|
| Trade receivables | 7,375 | 5,198 |
| Rent deposits | 4,106 | 3,908 |
| Other receivables | 1,219 | 1,272 |
| **Trade and other receivables, net** | **12,701** | **10,378** |
| *Of which:* | | |
| Non-current | 3,747 | 3,457 |
| Current | 8,954 | 6,921 |

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*** | **31/12/2017** | **31/12/2016** |
|---|---|---|
| Up to 3 months | 7,366 | 4,882 |
| 3 months to 1 year | 299 | 744 |
| 1 to 5 years | 417 | 1,192 |
| over 5 years | - | - |
| **Trade receivables (gross)** | **8,082** | **6,817** |
| Allowance for impairment | (707) | (1,619) |
| **Trade receivables (net)** | **7,375** | **5,198** |

Trade receivables after allowance for impairment of TEUR 7,375 (2016: TEUR 5,198) 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 the Netherlands, Brazil and Italy. 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*** | **2017** | **2016** |
|---|---|---|
| **At 1 January** | 1,619 | 1,467 |
| Provided in the year | 132 | 167 |
| Utilized in the year | (193) | (21) |
| Reversed in the year | (845) | (38) |
| Exchange rate differenced | (6) | 45 |
| **At 31 December** | **707** | **1,619** |

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 and prepayments on inventories

Inventories and prepayments on inventories have developed as follows:

| *TEUR* | **31/12/2017** | **31/12/2016** |
|---|---|---|
| Inventories | 21,694 | 16,757 |
| Prepayments on inventories | 2,358 | 1,971 |
| **Total** | **24,052** | **18,728** |

Inventories available for sale representing products and merchandise are stated net of a provision for inventory write off amounting to TEUR 5,469 (2016: TEUR 4,019).

## 13 Other assets

| *TEUR* | **31/12/2017** | **31/12/2016** |
|---|---|---|
| Other advances | 1,516 | 998 |
| VAT receivables | 44 | 414 |
| Other tax receivables | 354 | 276 |
| Other non-financial receivables | 143 | 156 |
| **Total** | **2,057** | **1,844** |

## 14 Cash and cash equivalents

Cash and cash equivalents are comprised of the following:

| *TEUR* | **31/12/2017** | **31/12/2016** |
|---|---|---|
| Cash at bank and in hand | 13,831 | 17,899 |
| **Total** | **13,831** | **17,899** |

The bank accounts of Westwing Group GmbH and Westwing GmbH (TEUR 4,814 as of 31 December 2017) were pledged to Kreos in the course of the loan issued and the warrant agreement entered into in 2017.

## 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 2016 | 92 |
| Issue of ordinary shares in 2016 | - |
| **At 31 December 2016 / 1 January 2017** | **92** |
| Issue of ordinary shares in 2017 | - |
| **At 31 December 2017** | **92** |

The total authorized number of ordinary shares as per 31 December 2017 is 91,702 shares (31 December 2016: 91,702 shares) with a nominal value of EUR 1 per share. The nominal value of all ordinary shares is fully paid.

In 2017 there was no capital increase.

*Reserves*

The share premium of TEUR 210,343 consists of the amounts of the capital increases from the past years which exceeded the nominal value. As of 31 December 2017, the retained earnings amount to TEUR -269,292 and result from the net losses from the financial years since formation.

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 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:

| | 2017 | 2016 |
|---|---|---|
| Number of unvested awards outstanding at the beginning of the period | 416 | 1,286 |
| Granted during the period | 100 | |
| Forfeited during the period | 67 | 84* |
| Vested during the period | 412 | 757 |
| **Number of unvested awards outstanding at the end of the period** | **37** | **445*** |
| Settled during the period | - | 1,383 |
| Cancelled during the period | - | 29 |
| **Total number of vested awards outstanding at the end of the period** | **24,230** | **23,818** |

* Prior-year figures adjusted to correct errors in disclosure.

Development of equity-settled share options:

| | 2017 | 2016 |
|---|---|---|
| Number of unvested awards outstanding at the beginning of the period | 7,963 | 7,016 |
| Granted during the period | 884 | 3,573 |
| Forfeited during the period | 68 | 1,112 |
| Vested during the period | 1,957 | 1,514 |
| **Number of unvested awards outstanding at the end of the period** | **6,822** | **7,963** |
| Settled during the period | - | 708 |
| Cancelled during the period | - | 23 |
| **Total number of vested awards outstanding at the end of the period** | **5,501** | **3,544** |

Development of cash-settled share options:

| | 2017 | 2016 |
|---|---|---|
| Number of unvested awards outstanding at the beginning of the period | 208 | 420 |
| Granted during the period | - | - |
| Forfeited during the period | 10 | 66 |
| Vested during the period | 87 | 146 |
| **Number of unvested awards outstanding at the end of the period** | **111** | **208** |
| Settled during the period | - | 402 |
| **Total number of vested awards outstanding at the end of the period** | **5,598** | **5,511** |

*Share options and phantom options*

Share options and phantom options relating to the Company's shares or to 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 | **2017** | | **2016** | |
|---|---|---|---|---|
| | Weighted Average Exercise Price | Number of Options | Weighted Average Exercise Price | Number of Options |
| Outstanding at 1 January | 732.77 | 11,507 | 921.84 | 9,777 |
| Granted during the year | 1.00 | 884 | 42.98 | 3,573 |
| Forfeited during the year | 1.00 | 68 | 500.34 | 1,112 |
| Settled during the year | - | - | 251.40 | 708 |
| Cancelled during the year | - | - | 1.00 | 23 |
| **Outstanding at 31 December** | **684.31** | **12,323** | **732.77** | **11,507** |
| *Thereof vested* | *1,190.09* | *5,501* | *1,282.80* | *3,544* |

| Phantom options | **2017** | | **2016** | |
|---|---|---|---|---|
| | Weighted Average Exercise Price | Number of Options | Weighted Average Exercise Price | Number of Options |
| Outstanding at 1 January | 165.35 | 5,719 | 175.54 | 6,187 |
| Granted during the year | - | - | - | - |
| Forfeited during the year | 5,228.69 | 10 | 1,583.65 | 66 |
| Settled during the year | - | - | 89.46 | 402 |
| **Outstanding at 31 December** | **156.48** | **5,709** | **165.35** | **5,719** |
| *Thereof vested* | *111.55* | *5,598* | *99.50* | *5,511* |

No options were exercised in 2017 (2016: 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** | **2017** | **2016** | **2017** | **2016** |
| 2011 | 2015 | 257.63 | 257.63 | 328 | 328 |
| 2012 | 2016 | 1.00 | 1.00 | 655 | 655 |
| 2013 | 2017 | 80.42 | 80.42 | 458 | 458 |
| 2014 | 2018 | 1,320.40 | 1,320.36 | 5,812 | 5,821 |
| 2015 | 2019 | 463.08 | 463.08 | 1,017 | 1,017 |
| 2016 | 2020 | 48.33 | 47.46 | 3,169 | 3,228 |
| 2017 | 2021 | 1.00 | - | 884 | - |
| | | **684.31** | **732.77** | **12.323** | **11,507** |

| **Phantom options** | | **Weighted Average Exercise price per share options** | | **Share Options** | |
|---|---|---|---|---|---|
| **Grant Date** | **Vesting Date** | **2017** | **2016** | **2017** | **2016** |
| 2011 | 2015 | 54.21 | 54.21 | 5,009 | 5,009 |
| 2012 | 2016 | 292.00 | 292.00 | 88 | 88 |
| 2013 | 2017 | 292.00 | 292.00 | 183 | 183 |
| 2014 | 2018 | 1,470.23 | 1,470.23 | 216 | 216 |
| 2015 | 2019 | 1,056.68 | 1,243.77 | 223 | 223 |
| 2016 | 2020 | - | - | - | - |
| 2017 | 2021 | - | | | |
| | | **156.48** | **165.35** | **5,709** | **5,719** |

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 2017 financial year with compensation from equity instruments amounted to TEUR 3,425 (2015: TEUR 3,999) 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** | **2017 (Company shares)** | **2017 (Subsidiary shares)** | **2016 (Company shares)** |
|---|---|---|---|
| Share price (EUR) | 2,960 – 4,029 | 3,917 | 3,445 - 4,167 |
| Option exercise price (EUR) | 1 | 1 | 1 - 1,830 |
| Volatility based on expected life | 41.0% | 41.0% | 47.2% |
| Expected life | 4.0 | 4.0 | 4.0 |
| Dividend yield | - | - | nil |
| Risk-free rate | 0% | 0% | 0% |
| Fair value per option (EUR) | 2,960 – 4,029 | 3,916 | 1,986 - 4,167 |

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 2017 was TEUR 2.8 (2016: TEUR 1.6). 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** | **2017 (Subsidiary shares)** | **2017 (Company shares)** | **2016 (Subsidiary shares)** | **2016 (Company shares)** |
|---|---|---|---|---|
| Share price (EUR) | 2,896 | 2,960 | 1,804 | 3,405 |
| Weighted Average Option exercise price (EUR) | 91 | 4,651 | 90.97 | 4,714.16 |
| Volatility based on expected life | 30.9% - 30.4% | 35.2% | 43.7% - 46.4% | 46.4% |
| Expected life | 0.1 – 0.5 | 2.0 | 1.08 – 1.50 | 3.00 |
| Dividend yield | - | - | nil | nil |
| Risk-free rate | 0.0% | 0.0% | 0.0% | 0.0% |
| Fair value per option (EUR) | 1,628 – 2,932 | 30 – 1,204 | 1,031 - 1,803 | 333 - 1,204 |

*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 2017, the total share-based compensation expense recognized amounted to TEUR 10,995 (2016: TEUR 4,011). The total expense recognized includes expenses due to equity-settled share-based payment awards of TEUR 4,860 (2016: TEUR 4,216). The revaluation of cash-settled options as at 31 December 2017 resulted in expenses of TEUR 6,135 (2016: gain of TEUR 489). The liability recognized for the cash-settled options as at 31 December 2017 therefore amounts to TEUR 15,735 (2016: TEUR 9,600). 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 15,592 (2016: TEUR 9,472). These vested phantom options are only exercisable upon occurrence of an exit event.

## 17 Borrowings

As at 31 December 2017, the Company had borrowings of TEUR 11,470 (31 December 2016: none). On 10 January Westwing and Kreos signed a loan agreement of TEUR 10,000 in two tranches. Both tranches of TEUR 5,000 each were drawn on 3 April 2017 and 30 June 2017 respectively. Both tranches are paid back over a period of 31 or 33 months respectively, according to the contract. The loan compounds interest at an effective interest rate of 11.98% (tranche 1) and 12.03% (tranche 2). The nominal interest amounts to 10.75%. When closing the loan agreement transaction costs of TEUR 50 were due. TEUR 25 had to be paid when drawing each tranche. In addition, an amount of 0.4% of the drawn tranches are due at the end of the term of each tranche (end of loan payment). The loan is recognized at amortized cost.

Furthermore, TEUR 1,853 of an existing loan facility with Deutsche Handelsbank were drawn. This short-term loan bears interest of 8.75%.

In the previous year, the last payments for a loan agreement from 12 April 2013 were done. According to the contract both tranches drawn in 2013 had to be paid back within 36 months after commencement. They were fully paid back in 2016.

## 18 Derivative financial instruments and financial liabilities at amortized cost

In parallel with the loan agreement, Westwing entered into a warrant agreement with Kreos in January 2017. Upon execution of the warrant, 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. The number of shares depends on the amounts of drawn tranches from the loan agreement. It increased accordingly in April and June 2017, when the tranches were drawn. The warrant is recorded as a derivative financial instrument recorded at fair value through profit or loss.

The warrant was recognized in January 2017 at a value of TEUR 210. In the financial year 2017, the option was expanded in different points of time. As at 31 December 2017 the value was TEUR 770 due to the increase of the number of shares.

Also in April 2013, Westwing entered into a warrant agreement with Kreos next to a loan agreement. Upon execution, 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 2017 increased to TEUR 640 (31 December 2016: TEUR 868).

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 2017 the value of the liability was TEUR 35,495 (31 December 2016 TEUR 27,901).

## 19 Finance lease liabilities

In the 2017 financial year, the Group leased a VPN server and recognized technical equipment and a corresponding liability. At 31 December 2017 the asset and the liability amounted to TEUR 45.

## 20 Current and non-current liabilities

Financial liabilities

At 31 December financial liabilities comprise of the following:

| *TEUR* | **31/12/2017** | **31/12/2016*** |
|---|---|---|
| Borrowings | 11,470 | - |
| Trade payables | 28,309 | 29,482 |
| Accruals | 11,408 | 9,237 |
| Other financial liabilities | 37,081 | 28,769 |
| Leasing liabilities | 45 | - |
| **Total** | **88,313** | **84,217** |
| *Of which current* | 48,372 | 39,588 |
| *Of which non-current* | 39,941 | 27,901 |

* Prior-year presentation of financial liabilities adjusted in accordance with IAS 39 (tax liabilities, liabilities for bonuses and share-based compensation classified as non-financial)

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

Non-financial liabilities

As of 31 December, the non-financial liabilities comprise as follows:

| *TEUR* | **31/12/2017** | **31/12/2016** |
|---|---|---|
| Customer prepayments | 11,721 | 10,400 |
| Liabilities related to employees | 20,845 | 14,935 |
| VAT liabilities | 3,773 | 2.854 |
| Tax liabilities | 325 | 395 |
| Other non-financial liabilities | 334 | 728 |
| **Total** | **36,998** | **29,313** |
| *Of which current* | 21,263 | 19,713 |
| *Of which non-current* | 15,735 | 9,600 |

* Prior-year presentation of non-financial liabilities adjusted in accordance with IAS 39

Liabilities related to employees of TEUR 20,845 (31 December 2016: TEUR 14,935) include liabilities for cash settled share-based compensation of TEUR 15,735 (31 December 2016: TEUR 9,600) as well as accruals for bonuses and severances. We refer to Note 16 for further information.

## 21 Provisions

Movements in provisions for liabilities and charges are as follows:

| *TEUR* | **Legal claims** | **Restoration** | **Returns** | **Other** | **Total** |
|---|---|---|---|---|---|
| **At 1 January 2017** | **175** | **337** | **1,357** | **16** | **1,885** |
| Provided in the year | 45 | - | 2,726 | 33 | **2,804** |
| Released during the year | (17) | - | - | (8) | **(25)** |
| Utilized during the year | (14) | (95) | (1,357) | - | **(1,466)** |
| Exchange differences | (18) | - | - | (1) | **(19)** |
| **At 31 December 2017** | **171** | **242** | **2,726** | **40** | **3,179** |

Analysis of total provisions:

| *TEUR* | **Legal claims** | **Restoration** | **Returns** | **Other** | **Total** |
|---|---|---|---|---|---|
| *Included in:* | | | | | |
| Current liabilities | 171 | - | 2,726 | 40 | **2,937** |
| Non-current liabilities | - | 242 | - | - | **242** |
| **At 31 December 2017** | **171** | **242** | **2,726** | **40** | **3,179** |

The provision for returns of TEUR 2,726 (2016: TEUR 1,357) 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. The restoration provision primarily relates to the new office in Moosacher Str. 88 in Munich. The timing of payment is uncertain. For the previous office in Dingolfinger Str. 2 parties agreed on the services in 2017 and the provision was utilized accordingly.

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 45 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 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** |

## 22 Financial risk management

### 22.1 Financial risk factors

#### 22.1.1 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.

### 22.1.2 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* | **31/12/2017** | **31/12/2016** |
|---|---|---|
| Polish Zloty strengthening/ (weakening) by 10%* | +397 / (397) | +232 (232) |
| Russian Ruble strengthening/ (weakening) by 10% | +214 / (214) | +274 / (274) |
| Swiss Franc strengthening/ (weakening) by 10% | +23 / (23) | +23 / (23) |
| Brazilian real strengthening/ (weakening) by 10% | (126) / 126 | - / - |
| **Total** | **+509 / (509)** | **+529 / (529)** |

* Prior-year values adjusted.

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.

### 22.1.3 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** | **31/12/2017** | **31/12/2016** |
|---|---|---|---|
| ***Trade and other receivables*** | 11 | | |
| Trade receivables (net) | | 7,375 | 5,198 |
| Other financial receivables | | 5,326 | 5,180 |
| ***Cash and cash equivalents*** | 14 | | |
| Cash in hand | | 18 | 5 |
| Bank balances | | 13,813 | 17,894 |
| Short-term bank deposits | | - | - |
| **Total on-balance sheet exposure** | | **26,532** | **28,277** |

*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* | **31/12/2017** | **31/12/2016** |
|---|---|---|
| AAA | - | - |
| AA- to AA+ | 50 | 143 |
| A- to A+ | 5 | 5 |
| BBB- to BBB+ | 11,911 | 13,493 |
| Lower than BBB- rated | 1,025 | 4,040 |
| Unrated | 822 | 213 |
| **Total** | **13,813** | **17,894** |

*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.

### 22.1.4 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 2017 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows. Debtors with credit balances and liabilities from finance lease are not considered.

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 2017 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 | 1,135 | 6,720 | 3,971 | - | 11,826 |
| Trade payables | 28,309 | - | - | - | 28,309 |
| Accruals | 11,408 | - | - | - | 11,408 |
| **Total future payments, including future principal and interest payments** | **40,852** | **6,720** | **3,971** | **-** | **51,543** |

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 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 |
| **Total future payments, including future principal and interest payments** | **38,719** | **-** | **-** | **-** | **38,719** |

The figures differ from the previous year, as the table only comprises financial instruments in accordance with IAS 39. Tax liabilities as well as liabilities against employees in the sense of IAS 19 and IFRS 2 are correspondingly not shown here anymore.

### 22.2 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.

### 22.3 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:

| | 31/12/2017 | | | | 31/12/2016 | | | |
|---|---|---|---|---|---|---|---|---|
| *TEUR* | **Level 1** | **Level 2** | **Level 3** | **Carrying value** | **Level 1** | **Level 2** | **Level 3** | **Carrying value** |
| **Liabilities** | | | | | | | | |
| Other financial liabilities: | | | | | | | | |
| Derivative financial instrument | - | - | 1,410 | 1,410 | - | - | 868 | 868 |
| **Total liabilities** | **-** | **-** | **1,410** | **1,410** | **-** | **-** | **868** | **868** |

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 unobservable 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.

## 23 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 | 31/12/2017 |
|---|---|---|
| Cash and cash equivalents | 14 | 13,831 |
| Trade and other receivables | 11 | 12,701 |
| **Total** | | **26,532** |
| | | **31/12/2016** |
| Cash and cash equivalents | 14 | 17,899 |
| Trade and other receivables | 11 | 10,378 |
| **Total** | | **28,277** |

Financial liabilities:

| | | 31/12/2017 | | |
|---|---|---|---|---|
| *TEUR* | Note | Financial liabilities at amortized cost | Financial liabilities at fair value through profit or loss – held-for-trading | Total |
| Borrowings | 17 | 11,470 | - | 11,470 |
| Trade payables | 20 | 28,309 | - | 28,309 |
| Accruals | 20 | 11,408 | - | 11,408 |
| *Other financial liabilities* | | | | |
| Other payables | | 35,671 | - | 35,671 |
| Derivative financial instrument | 18 | - | 1,410 | 1,410 |
| Leasing liabilities | | 45 | - | 45 |
| **Total** | | **86,903** | **1,410** | **88,313** |

| *TEUR* | Note | 31/12/2016<br>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 | | 27,901 | - | 27,901 |
| Derivative financial instrument | 18 | - | 868 | 868 |
| Borrowings | 17 | - | - | - |
| **Total** | | **66,620** | **868** | **67,488** |

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 2017 was a loss of TEUR 10,738 (2016: loss of TEUR 6,937).

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

| *TEUR* | **Category** | **2017** | **2016** |
|---|---|---|---|
| Interest income | Loans & Receivables | 64 | 65 |
| Interest expense | Liabilities at amortized cost | (1,894) | (1,350) |
| Interest expense of Investor option | Liabilities at amortized cost | (7,594) | (4,928) |
| Valuation of Kreos warrant | Held for trading | (542) | (33) |
| Impairment of financial assets | Loans & Receivables | (772) | (691) |
| **Total** | | **(10,738)** | **(6,937)** |

## 24 Material partly-owned subsidiaries

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

| | Country of incorporation and operation | 31/12/2017 NCI in % | 31/12/2016 NCI in % |
|---|---|---|---|
| Westwing GmbH | Germany | 27.97% | 27.97% |
| Westwing Comércio Varejista Ltda. | Brazil | 22.71% | 22.71% |

| *TEUR* | 31/12/2017 | 31/12/2016 |
|---|---|---|
| Accumulated balances of material non-controlling interest: | | |
| Westwing GmbH | (19,367) | (17,890) |
| Westwing Comércio Varejista Ltda. | (3,696) | (3,943) |
| Profit (loss) allocated to material non-controlling interest: | | |
| Westwing GmbH | (1,531) | (1,031) |
| Westwing Comércio Varejista Ltda. | 150 | 75 |

No dividends were paid to non-controlling interest for either company in 2017 or 2016.

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 2017:

| *TEUR* | Westwing GmbH | Westwing Comércio Varejista Ltda. |
|---|---|---|
| Revenue | 106,022 | 32,207 |
| Result for the period | (5,475) | 661 |

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

| *TEUR* | Westwing GmbH | Westwing Comércio Varejista Ltda. |
|---|---|---|
| Revenue | 86,136 | 30,424 |
| Result for the period | (3,688) | 331 |

Summarized statement of financial position as at 31 December 2017:

| *TEUR* | **Westwing GmbH** | **Westwing Comércio Varejista Ltda.** |
|---|---|---|
| Cash and cash equivalents | 4,062 | 309 |
| Trade and other receivables | 8,983 | 2,714 |
| Inventory | 8,848 | 1,765 |
| Total current assets | 51,201 | 5,270 |
| Total non-current assets | 3,480 | 585 |
| Total current liabilities | (108,177) | (8,348) |
| Total non-current liabilities | (15,746) | - |

Summarized statement of financial position as at 31 December 2016:

| *TEUR* | **Westwing 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 cash flow information for the year ended 31 December 2017:

| *TEUR* | **Westwing GmbH** | **Westwing Comércio Varejista Ltda.** |
|---|---|---|
| Operating cash flow | 1,846 | 191 |
| Investing cash flow | (232) | (57) |
| Financing cash flow | (1,182) | (2,411) |
| **Net increase/(decrease) in cash and cash equivalents** | **432** | **(2,277)** |

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

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

## 25 Income taxes

*Current income taxes*

The major components of current income tax expense for the year ended 31 December 2017 and 2016 are:

| *TEUR* | **2017** | **2016** |
|---|---|---|
| *Current income tax:* | | |
| Current income tax charge / gain | 399 | 392 |
| **Income tax expense reported in the income statement** | **399** | **392** |

Reconciliation of the expected tax income as the accounting profit multiplied by Germany's domestic corporate and trade tax rate for 2017 (2016) to the tax expenses recognized in income statement:

| *TEUR* | **2017** | **2016** |
|---|---|---|
| **Result before income tax** | **(31,150)** | **(24,516)** |
| Applicable tax rate | 32.975% | 32.975% |
| At domicile applicable tax rate expected tax income | (10,272) | (8,084) |
| Unrecognized tax losses | 3,735 | 6,422 |
| Effect from the use of unrecognized tax losses | (1,335) | (1,026) |
| Unrecognized deferred tax assets on temporary differences | 4,590 | 1,877 |
| Non-deductible expenses | 3,195 | 775 |
| Effect on different tax rate of foreign operations | 140 | 428 |
| Other effects | 346 | - |
| **Income tax expense reported in the income statement** | **399** | **392** |

*Deferred taxes*

The Group's deferred taxes relate to the following:

| | Consolidated statement of financial position | | Consolidated income statement | |
|---|---|---|---|---|
| *TEUR* | **31/12/2017** | **31/12/2016** | **2017** | **2016** |
| Software | (1,466) | (1,040) | (427) | (426) |
| Inventories | (17) | 6 | (23) | (19) |
| Receivables | 11 | 10 | 1 | 510 |
| Provisions | 198 | 135 | 63 | (157) |
| Stock options | 1,274 | 887 | 387 | 92 |
| **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 4,459 (2016: TEUR 2,665) and on tax loss carry forwards in the amount of EUR 211m (2016: EUR 212m) 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 EUR 211m (2016: EUR 212m) that are available for offsetting against future taxable profits of the companies in which the losses arose as follows:

| *EUR m* | **2017** | **2016** | **Restrictions on tax losses carried forward** |
|---|---|---|---|
| Germany | 82 | 81 | No |
| Brazil | 15 | 16 | No |
| France | 29 | 27 | No |
| Italy | 18 | 21 | No |
| Netherlands | 20 | 17 | Yes |
| Poland | 11 | 14 | Yes |
| Russia | 18 | 19 | No |
| Spain | 18 | 17 | No |
| **Total** | **211** | **212** | |

*The following tax losses expire as indicated:*

| *EUR m* | **2017** | **2016** | **Restrictions on tax losses carried forward** |
|---|---|---|---|
| Poland | 11 | 14 | Exp 2018-2022 |
| Netherlands | 20 | 17 | Exp 2020-2026 |
| **Total** | **31** | **31** | |

In the affiliates Spain and Italy distributable profits were generated in 2017. Dividends are planned in the corresponding subholdings in 2018 for financial year 2017. Due to the earnings situation in all other affiliates and existing loss carry forwards, there will be no distributable profits in the foreseeable future.

Based on the planned dividends from the Italian and Spanish affiliate deferred taxes arise as a result from “outside basis differences” in the amount of the tax burden on non-deductible expenses.

## 26 Other financial commitments

*Operating lease commitments*

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

| *TEUR* | **31/12/2017** | **31/12/2016** |
|---|---|---|
| Not later than 1 year | 4,970 | 4,702 |
| Later than 1 year and not later than 5 years | 12,083 | 15,513 |
| Later than 5 years | 8,361 | 8,696 |
| **Total** | **25,414** | **28,911** |

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/Germany, Moosacher Straße (until 2016: Dingolfinger Straße) and the warehouse in Großbeeren/Germany. Both lease agreements were non-cancellable until their respective maturity dates.

## 27 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 2017 and 2016, the outstanding balances with such related parties were as follows:

| *TEUR* | **31/12/2017** | **31/12/2016** |
|---|---|---|
| Gross amount of trade receivables | - | - |
| Trade and other payables | - | 9 |

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 as of 31 December 2017.

The payables to related parties arise mainly from purchase transactions and are due two months after the date of purchase, or from services rendered being due within 14 days after the receipt of the invoice. The payables bear no interest.

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

| *TEUR* | **2017** | **2016** |
|---|---|---|
| Sales of goods and services | 37 | 146 |
| Purchases of goods and services | 94 | 138 |

*Key management compensation*

Key management includes 6 executives (2016: 7 executives). The compensation paid or payable to key management for employee services is shown below:

| *TEUR* | **2017** | **2016** |
|---|---|---|
| *Employee benefits:* | | |
| Salaries (short-term employee benefits) | 1,108 | 1,242 |
| Share-based compensation | 2,290 | 1,327 |
| **Total** | **3,398** | **2,569** |

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.

## 28 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 31/12/2017 | Proportion of ownership interests held 31/12/2016 |
|---|---|---|---|---|
| Westwing GmbH | GER | Munich | 72.03 | 72.03 |
| 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 | 94.96 |
| Westwing France Holding UG | GER | Berlin | 94.56 | 94.56 |
| Westwing Italy Holding UG | GER | Berlin | 90.72 | 91.24 |
| Westwing Netherlands Holding UG | GER | Munich | 84.12 | 87.64 |
| Tekcor 1. V V UG | GER | Bonn | 92.76 | 92.76 |
| Brillant 1256. GmbH & Co. Dritte Verwaltungs KG | GER | Berlin | 88.80 | 88.80 |
| 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 | 94.20 |
| 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 | 77.30 |
| VRB GmbH & Co. B-160 KG | GER | Berlin | 97.50 | 97.50 |
| 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 31/12/2017 | Proportion of ownership interests 31/12/2016 |
|---|---|---|---|---|
| WW E-Services Iberia S.L. | ES | Barcelona | 94.96 | 94.96 |
| WW E-Services Italy S.r.l. | IT | Milan | 90.72 | 91.24 |
| 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 | 92.76 |
| WW E-Services The Netherlands B.V. | NL | Amsterdam | 84.12 | 87.64 |
| Westwing Comercio Varejista Ltda. | BR | Sao Paulo | 77.29 | 77.29 |
| Westwing Russia OOO | RU | Moscow | 88.80 | 88.80 |

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.

## 29 Events after the balance sheet date

Subsequent to the end of the 2017 financial year, the following events occurred that have a significant impact on Westwing's future results of operations, financial position and net assets:

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

Furthermore, in May and June 2018 it was decided by management and approved by the Advisory Board to divest the Russian and Brazilian operating entities. Both offer only few synergies with the rest of the Group.

Munich, 11 May 2018 / 31 July 2018

| Stefan Smalla | Dr. Dr. Florian Drabeck |
|---|---|
| Managing Director<br>Westwing Group GmbH | Managing Director<br>Westwing Group GmbH |

# Westwing Group GmbH
Berlin

# Group Management Report

# 31 December 2017

*Translation from the German language*

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# 1. Basic information

## 1.1 Business model

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

The Company with its headquarter in Munich was founded in 2011 by Delia Fischer, Georg Biersack, Matthias Siepe, Stefan Smalla and Tim Schäfer. Westwing operates in the DACH area (Germany, Austria and Switzerland) as well as other international markets (Italy, France, Spain, the Netherlands, Belgium, Poland, Czech Republic, Slovakia, Brazil, Russia and Kazakhstan). In most countries, Westwing has been established as a leading company in the sector.

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

As of December 2017, there is nearly 1 million active Westwing customers[1].

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

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

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

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

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

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

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

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

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

### 1.2 Group structure

The Group 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, Germany.

As at 31 December 2017, 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 2017, 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. For nearly all categories Westwing has created an offering for own private label products as well.

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

Superior customer acquisition

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

Strong supplier relationships

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

Attractive Westwing private label offering

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

Holistic customer experience

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

Exceptional execution

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

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

### 1.4 Research and Development

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

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

To maintain its software architecture, Westwing has established a skilled in-house technology team that provides central support to all countries. During the fiscal year 2017, Westwing's intangible assets increased by EUR 0.4m to a total of EUR 4.0m. The share of capitalized development costs in total IT costs was 23.6% in 2017. Amortization of capitalized development costs amounted to EUR 3.3m.

## 2. Economic developments

### 2.1 Overall situation of the economy and industry-specific conditions

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

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

The global Home & Living market amounts to approximately EUR 580 billion[2]. The 14 countries in which Westwing operates cover approximately EUR 200 billion; this market consists of over 700m people.[3]

Currently the market for Home & Living products, compared to other retailing categories, does not yet show a high online penetration. While online penetration[4] in Europe for Consumer Electronics is at 23.4% and for Apparel & Foot ware is at 13.5%, Home and Living is currently at only 6.5%. Given that the total (i.e. offline and online) Home & Living market is as big as the fashion market, there is a huge potential once as Home & Living moves online.

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

- Broader product offering:

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

[2] 9M 2017 Results Rocket Internet Group & Selected Companies and Capital Markets Day 30/11/2017, presentation
[3] International Monetary Fund: World Economic Outlook Database January 2018
[4] Data for Western Europe, source: Euromonitor

- Better availability for customers:

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

- Increasing familiarity with the advantages of online retail:

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

- Mobile eCommerce (mCommerce):

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

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

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

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

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

## 2.2 Business development

Building the foundation for the future, profitable growth was a key goal for Westwing in 2017. Looking back at 2017, this goal was fully achieved: Adjusted EBITDA margin[5], which is among the key metrics management uses to assess the profitability, improved from -5.5% in 2016 to only -1.9% in 2017. In absolute numbers Adjusted EBITDA for the Group amounted to EUR -4.9m (previous year: EUR -13.8m). In Q4/2017, the seasonally strongest quarter in the Home & Living market, Westwing reached a positive Adjusted EBITDA margin of around +4%. As in the previous year, free cash flow, (i.e. sum of operating and investing cash flow) was positive in the fourth quarter. While focusing on improving profitability, revenue growth continued, reaching EUR 265.8m in 2017, up 6.2% on the prior year (adjusted for currency translation effects +4.5%). Overall, 2017's results are in line with previous years' forecast, with growth accelerating during the year.

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

The DACH region (Germany, Austria and Switzerland), forming the role model for all other countries, had the highest absolute contribution to total revenue. Revenue amounted here to EUR 97.6m, a share of 36.7% of total group revenue. Furthermore, based on internal management accounting this region was sustainably profitable on the level of adjusted EBITDA[6] in 2017. Thus, the DACH region serves as both, a role model and a blueprint for profitable growth in other countries.

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

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

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

[5] EBITDA Margin before share-based payments
[6] EBITDA before share-based payments

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

### 2.3 Remarks on the economic situation

In 2017, the reporting of interest income and interest expenses was adjusted in the consolidated statement cash flows. In accordance with IAS 7 'statement of cash flows', there is an option to show these interests either in operating cash flow, or to show interest expense in the cash flow from financing activities and interest income in the cash flow used in investing activities. As the second alternative according to management reflects the financing nature of interest expenses at Westwing more precisely, the reporting was adjusted in 2017 in accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'. For the previous year, interest income of EUR 0.1m and interest expense of EUR 1.3m were reclassified from operating cash flow to cash flow from investing or financing cash flow respectively.

Furthermore, it was decided to disclose all buying costs and personnel expenses related to logistics management functions in the general and administrative expenses, as this better reflects the nature of the costs as they are not directly related with fulfilment. In addition, this approach is used by competitors. For the financial year 2016 expenses of EUR 12.1m were reclassified from fulfilment expenses to general and administrative expenses.

The favorable development and ongoing improvement across many key dimensions in 2017 is apparent in the key performance indicators as described below.

### 2.3.1. Results of operations

The Condensed Income Statement and other financial data show 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 Mio.* | **2017** | **2016** | **Change in %** | **2017 in % of revenue** | **2016 in % of revenue** | **Change in %pts** |
|---|---|---|---|---|---|---|
| **Revenue** | **265.8** | **250.4** | **6.2** | **100.0** | **100.0** | |
| Cost of sales | (151.7) | (144.1) | 5.3 | (57.1) | (57.5) | 0.5 |
| **Gross Profit** | **114.1** | **106.3** | **7.4** | **42.9** | **42.5** | **0.5** |
| Fulfilment expenses[7] | (56.1) | (53.8)* | 4.3 | (21.1) | (21.5) | 0.4 |
| Marketing expenses | (15.8) | (18.0) | (12.0) | (6.0) | (7.2) | 1.2 |
| General and administrative expenses[7] | (51.3) | (50.3)* | 1.9 | (19.3) | (20.1) | 0.8 |
| Other operating expenses | (2.0) | (1.6) | 28.2 | (0.8) | (0.6) | (0.1) |
| Other operating income | 0.8 | 0.9 | (20.0) | 0.3 | 0.4 | (0.1) |
| **EBIT Adjusted** | **(10.3)** | **(16.5)** | **(37.1)** | **(3.9)** | **(6.6)** | **2.7** |
| Depreciation and Amortization | (5.4) | (2.7) | 102.4 | (2.0) | (1.1) | (1.0) |
| **EBITDA Adjusted** | **(4.9)** | **(13.8)** | **(64.2)** | **(1.9)** | **(5.5)** | **3.6** |

* Prior-year figures adjusted. We refer to paragraph 2.3 of the notes.

Revenues for the year are comprised of the following:

| *TEUR* | **2017** | | **2016** | |
|---|---|---|---|---|
| Revenue from the sale of products | 253,079 | 95.2% | 237,611 | 94.9% |
| Revenue from shipping charges | 13,832 | 5.2% | 14,455 | 5.8% |
| Revenue from payment fees | 544 | 0.2% | 641 | 0.3% |
| Other revenue | 2,427 | 0.9% | 1,662 | 0.7% |
| Sales reductions | (4,043) | -1.5% | (3,997) | -1.6% |
| **Total** | **265,840** | | **250,372** | |

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

| *TEUR* | **2017** | | **2016** | |
|---|---|---|---|---|
| DACH | 97,634 | 36.7% | 79,260 | 31.7% |
| International | 168,206 | 63.3% | 171,112 | 68.3% |
| **Total** | **265,840** | | **250,372** | |

[7] 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 2017 including social security expenses amounted to EUR 11.0m (2016: EUR 4.0m). The EBITDA including share-based payment expenses in 2017 amounted to EUR -15.9m (2016: EUR -17.8m).

The geographical regions are defined as follows:

- DACH includes revenue recognized in Germany, Switzerland and Austria.
- International 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 developed as follows:

**Other key performance indicators**

| | **2017** | **2016*** | **Change** |
|---|---|---|---|
| Active Customers (in k) | 997 | 996 | +0.1% |
| Orders per Active Customer per year | 2.8 | 2.8 | -0.5% |
| Total Orders (in k) | 2,760 | 2,771 | -0.4% |
| GMV[8] (in EUR m) | 304 | 280 | +8.5% |
| Share of Orders via Mobile[9] | 55.9% | 54.1% | +1.8% pts |

* Calculation of prior-year figures adjusted according to new logic.

Westwing was able to grow revenue to EUR 265.8m, an increase of 6.2% compared to the previous year (2016: EUR 250.4m). This development was mainly driven by increasing revenues with existing customers.

Westwing's gross profit margin was at 42.9% on a similar level as 2016 (42.5%).

Fulfillment expenses[10] (before share-based payments) as percent of revenue maintained relatively stable at 21.1% (2016: 21.5%). This was primarily driven by a reduction of logistics costs, increased efficiency in the Berlin warehouse, opening of an additional warehouse in Poland supporting the DACH business as well as improvements in the software for logistics.

Marketing expenses decreased to EUR 15.8m (2016: EUR 18.0m) yet showed high impact on acquisition of new buyers. This is in line with management's strategy to focus on marketing channels with most efficient return on investment such as organic channels.

General and administrative expenses (before share-based payment) remained nearly stable compared to the prior year on a full year view, at EUR 51.3m (2016: EUR 50.3m). On a quarterly view, however, these costs were reduced significantly throughout the year as a result of increased efficiency and centralization of Dutch operations and Berlin non-logistics activities to Munich.

[8] Gross Merchandise Volume
[9] Share of Orders via Mobile total Westwing, 2016 Club only
[10] Fulfilment expenses include shipping costs.

Management uses as key metric Adjusted EBITDA[11] to manage profitability. The Adjusted EBITDA margin improved by 3.6%pts from -5.5% in 2016 to -1.9% in 2017. The Adjusted EBITDA margin was around +4% in the fourth quarter 2017, thus positive again as in the same period of the previous year. The Adjusted EBITDA was improved by EUR 8.9m to EUR -4.9m and reflects operating leverage and higher marketing efficiency resulting into less expenses. Amortization and depreciation increased by EUR 2.7m to EUR 5.4m, thus Adjusted EBIT in absolute figures has improved by EUR 6.2m. This EBIT and EBITDA development had also a positive impact on the net result.

In the 2017 fiscal year the net result amounted to EUR -31.5m, increasing the net loss by EUR 6.6m compared to the previous year. An increase in accounting effects of Share Based Payment to EUR 11.0m in 2017 (compared EUR to 4.0m in 2016) was the main driver that the significant improvement in Adjusted EBITDA was not reflected in the result of the year. In addition, higher non-cash financial expenses related to the accrued interest for the May 2016 financing round of EUR 7.6 m in 2017 (compared to EUR 4.9m in 2016) were recognized.

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 280m in 2016 to EUR 304m in 2017 representing growth of 8.5%. This increase was based on a total of 2.8m orders (2016: 2.8m) placed by 997k (2016: 996k) Active Customers. The number of orders by Active Customer per year remained at a constant level of 2.8 (2.8 in 2016).

Sales via mobile devices in 2017 accounted for 56% 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.

In summary it can be stated that the forecast set in 2016 for the 2017 fiscal year was reached for revenue and Adjusted EBITDA. As the Company focused on profitability, revenue growth was lower in 2017, but due to improvement of margins, process improvements and cost discipline, the target for Adjusted EBITDA was achieved.

### 2.3.2. Financial position

Westwing’s financial position was positively sustained in 2017, at all times maintaining sufficient cash reserves.

**Condensed Statement of Cash Flows**

| ***EUR m*** | **2017** | **2016** |
|---|---|---|
| Cash flows from operating activities* | (7.8) | (13.8) |
| Cash flows from investing activities* | (5.5) | (4.5) |
| Cash flows from financing activities* | 9.8 | 17.2 |
| Net decrease in cash and cash equivalents | (3.5) | (1.1) |
| Effect of exchange rate fluctuations on cash held | (0.6) | 0.4 |
| Cash and equivalents at 1 January | 17.9 | 18.7 |
| **Cash and equivalents at 31 December** | **13.8** | **17.9** |

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

[11] EBITDA KPI is adjusted for share based payment expenses. This relates to the positions fulfilment expenses and general and administrative expenses.

Cash outflow from operating activities totaled EUR -7.8m (2016: outflow of EUR -13.8m), an improvement of EUR 6.0m. This development is primarily due to a better operating result. Net Working capital - defined as inventory plus goods prepayments, non-current trade and other financial receivables less trade payables, accrued liabilities and customer prepayments - has increased by EUR 5.1m to EUR -18.4m in 2017 (2016: EUR -23.5).

Cash outflows from investing activities slightly increased and amounted to EUR -5.5m (2016: EUR -4.5m). Westwing invested EUR 1.6m in tangible assets such as IT infrastructure and warehouse equipment and EUR 3.9m in intangible assets, primarily internally developed software.

Free cash flow (the sum of operating and investing cash flow) was again positive in the fourth quarter of 2017, supporting the successful development towards a sustainable profitability.

The cash flow from financing activities amounted to EUR 9.8m (2016: EUR 17.2m). It includes EUR 10.0m loans from Kreos Capital, and EUR 1.9m from a working capital line from Deutsche Handelsbank. Cash outflows relate to interest payments for these loans. 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 always approached with sufficient lead-time. Westwing was able to meet its payment obligations at all times.

### 2.3.3. Assets and liabilities

Westwing's net assets evidence an asset-light business model, with current assets forming the largest parts of total assets.

**Condensed Statement of Financial Position**

| ***EUR m*** | **2017** | **2017 in % of Total** | **2016** | **2016 in % of Total** | **Change in EUR m** | **Change in %** |
|---|---|---|---|---|---|---|
| Total Assets | 62.7 | 100.0 | 59.0 | 100.0 | 3.8 | 6.4 |
| Non-Current Assets | 13.8 | 22.1 | 13.6 | 23.0 | (0.3) | 1.9 |
| Current Assets | 48.9 | 77.9 | 45.4 | 77.0 | 3.5 | 7.7 |
| Total Liabilities + Equity | 62.7 | 100.0 | 59.0 | 100.0 | 3.8 | 6.4 |
| Equity | (65.8) | (104.8) | (39.7) | (67.3) | (26.0) | 65.6 |
| Non-Current Liabilities | 55.9 | 89.1 | 37.8 | 64.2 | 18.1 | 47.8 |
| Current Liabilities | 72.6 | 115.7 | 60.8 | 103.2 | 11.7 | 19.3 |

Total assets amounted to EUR 62.7 in 2017, an increase of 6.4% when compared to the previous year (2016: EUR 59.0m). This development is mainly due to higher stock, in correlation with the business volume. The Company's assets mainly consist of current assets including trade receivables as well as cash and cash equivalents, next to inventory.

Current assets accounted for EUR 48.9m on 31 December 2017 (2016: EUR 45.4m). Cash and equivalents were lower, at EUR 13.8m (2016: EUR 17.9m). Inventory increased to EUR 21.7m (2016: EUR 16.8m) due to overall revenue growth, strong growth of WestwingNow which holds parts of its products available in stock and increasing sales of Private Label products. Trade and other current financial receivables increased to EUR 9.0m (2016: EUR 6.9) primarily due to the increased revenue volume.

Non-current assets mainly consist of property, plant and equipment as well as intangible assets. In 2017, net investments in property, plant and equipment totaled EUR 1.5m while intangible assets, primarily representing capitalization of software development, increased by EUR 0.4m. Capitalization of software development of EUR 3.8m was partially offset by amortization of EUR 2.2m and an impairment expense of EUR 1.0m.

Current liabilities increased by EUR 11.7m in 2017 due to the higher business volume. Current loans increased by EUR 7.0m. (31 December 2016: none). Trade payables decreased from EUR 29.5m in the prior year to EUR 28.3m as at 31 December 2017. Customers prepayments were up by EUR 1.3m to EUR 11.7m due to a higher amount of open customer orders at the end of the year.

The increase in non-current liabilities to EUR 55.9m (2016: EUR 37.8m) was mainly driven by the financing round from May 2016, where the liability is evaluated at amortized cost and increased by EUR 7.6m in 2017, and cash settled share based payment expenses. These liabilities increased to EUR 15.7m.

The Company's equity decreased from EUR -39.7m in 2016 to EUR -65.8m in 2017. The movement was mainly due to impact of non-cash interest on May 2016 financing round and share based payments. By now, the major part of the negative equity relates to the financing round from May 2016, which is recognized as non-current liability and bears interest. This financing round is classified as equity according to German Commercial Code (*Handelsgesetzbuch)*, while treated as debt according to IAS 32.21. 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 7.2m.

Other financial commitments from operating leases decreased from EUR 28,9m to EUR 19.6m, primarily as a result of lower remaining terms and the French affiliate's move in cheaper office and warehouse space in France.

The bank accounts of Westwing Group GmbH and Westwing GmbH were pledged to Kreos in the course of the loan issued and the warrant agreement entered into. There is a credit line of EUR 2.0m at Deutsche Handelsbank. In addition, we refer to the events after the balance sheet date.

## 2.4 Employees

At the end of December 2017, Westwing employed 1,331 full time equivalents (following: FTE's[12]), which is a decrease compared to 1,453 in 2016.

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

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

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

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

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

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

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

## 3. Subsequent events

Subsequent to the end of the 2017 financial year, the following events occurred that have a significant impact on Westwing's future results of operations, financial position and net assets:

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

Furthermore, on 2 May 2018 it was decided by management and approved by the Advisory Board to divest the Russian operating company. The Russian business offers only few synergies with the rest of the Group. Total assets amounted to EUR 2.8m end of 2017, revenues in the financial year 2017 were EUR 14.0m.

## 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 processes. Through skilled application of high quality risk analysis and management, our staff will exploit risk in order to enhance opportunities, reduce threats, and thus lead to increased value for the business and its stakeholders.

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

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

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

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

## 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 2017 are discussed in this section. They were not quantified, as in Westwing's view such discretionary figures do not provide an added value to a qualitative assessment. However, management recognizes that risks can change and therefore there may be other risks currently deemed insignificant, or yet unknown risks that might have a negative impact on the business in the future.

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

### 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 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 2017, 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 was 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 six years the Company has been able to create significant assets: Westwing is THE loved lifestyle brand for Home & Living eCommerce based on its own assessment. 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 around 1 million 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. The Company offers new products on its website, inspires customers with magazine articles, requests feedback from customers on transactions and speaks with customers directly as part of customer service.

Quality and reputation

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

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

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

Logistics

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

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

Loss of key employees and hiring

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

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

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

#### 4.2.3. IT risks

Website downtime

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

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

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

Data security

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

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

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

Technological progress and user experience

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

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

### 4.2.4. Risks arising from the use of financial instruments

In 2016 and 2017, Westwing did not acquire or sell any financial instruments that are subject to significant risks. The Company does not use derivative financial instruments for hedging of cash flows or fair values. The valuation of the Kreos option agreements 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: (1) external opportunities such as market growth and (2) internal opportunities, such as strengthening the brand and expanding into new sectors. The following chapter summarizes the primary opportunities.

### 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

Private Label

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

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

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

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

Brand

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

Mobile eCommerce

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

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

Margin improvement

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

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

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

## 5. Outlook for the Westwing Group

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

The Group is sufficiently financed and has built solid structures and processes, which will further support future growth and enabling the path to overall profitability. As in the previous year, the fourth quarter was again profitable in respect of the operating result (Adjusted EBITDA[13]) and free cash flow, partially supported by the seasonality towards year-end. Management expects Westwing to further continue the improvements of the essential KPIs in 2018.

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

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

For the year 2018, Westwing plans further improvements.

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

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

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

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

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

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

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

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

Munich, 11 May 2018

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