ANNUAL REPORT **2017**

windeln.de

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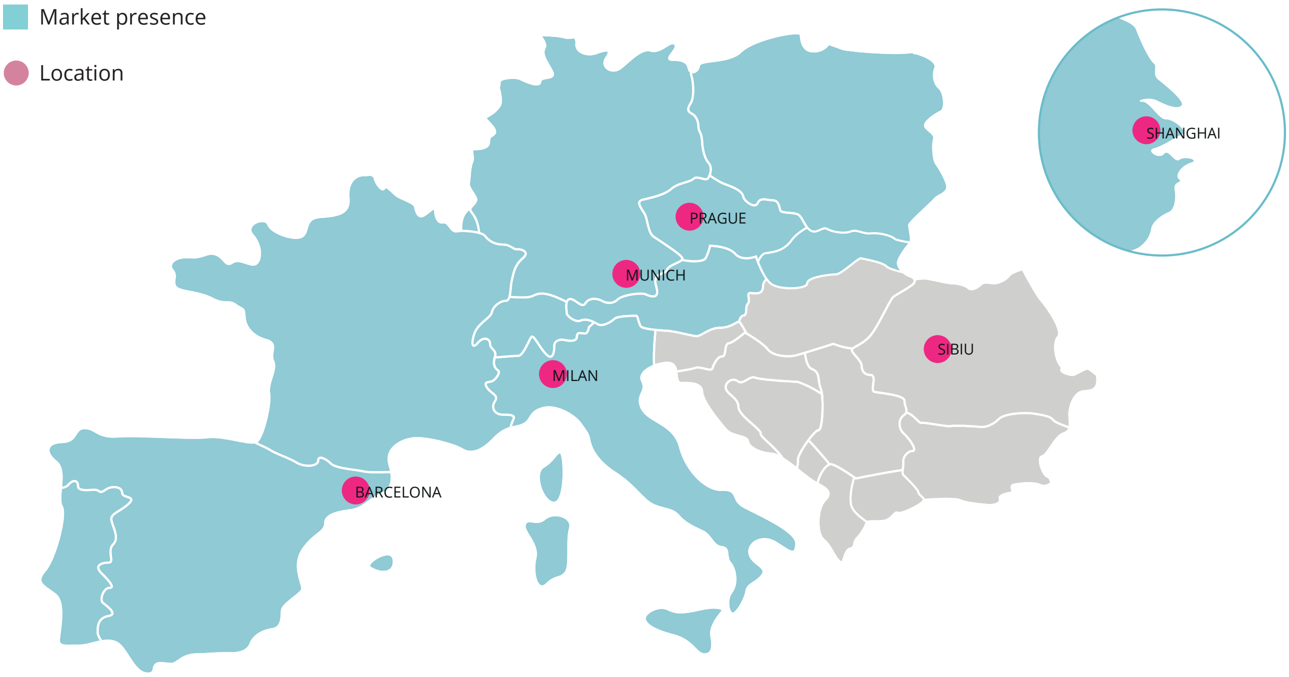
WINDELN.DE GROUP AT A GLANCE

Performance Indicators	2017	2016	Change
Site Visits	90,511,127	93,988,828	-3,477,701
Mobile Visit Share (as % of Site Visits)	70.6%	63.4%	7.3pp
Mobile Orders (as % of Number of Orders)	40.0%	45.5%	1.5pp
Active Customers	1,051,409	1,065,089	-13,680
Number of Orders	2,355,908	2,336,533	19,375
Average Orders per Active Customer (in number of orders)	2.23	2.19	0.04
Share of Repeat Customer Orders (as % of Number of Orders)	76.2%	76.6%	-0.4pp
Gross Order Intake (in EUR)	206,291,947	204,497,057	1,794,891
Average Order Value (in EUR)	87.56	87.52	0.04
Returns (as % of Net merchendise value)	3.1%	5.1%	-2.1pp
Marketing Cost Ratio (as % of revenues)	5.3%	7.0%	-1.7pp
Adjusted Fulfilment Cost Ratio (as % of revenues)	14.7%	17.4%	-2.7pp
Adjusted Other SG&A Expenses (as % of revenues)	16.5%	16.1%	0.4pp
Earnings Position			
Revenues (in kEUR)	211,899	194,756	17,143
Gross Profit (in kEUR)	52,335	51,772	563
Gross Profit (as % of revenues)	24.7%	26.6%	-1.9pp
Operating Contribution (in kEUR)	10,112	4,616	5,496
Operating Contribution (as % of revenues)	4.8%	2.4%	2.4pp
Adjusted EBIT (in kEUR)	-24,946	-26,712	1,766
Adjusted EBIT (as % of revenues)	-11.8%	-13.7%	1.9pp
Financial Position			
Cash flow from operating activities (in kEUR)	-27,963	-31,224	3,261
Cash flow from investing activities (in kEUR)	-201	-6,113	5,912
Cash and cash equivalents at the end of the period (in kEUR)	26,465	51,302	-24,837
Current time deposits (in kEUR)	2,500	1,875	625
Non-current time deposits (in kEUR)	-	2,500	-2,500
Total cash and time deposits	28,965	55,677	-26,712
Other			
Basic earnings per share (in EUR)	-1.41	-1.60	0.19
Diluted earnings per share (in EUR)	-1.29	-1.42	0.13

pp = percentage points
Alle performance indicators as well as the section earnings position include amounts from continuing operations only. In 2016, operation Shopping Clubs was discontinued. A similar event did not occur in 2017.

MARKET PRESENCE AND LOCATIONS IN EUROPE AND CHINA



Short profile of windeln.de

Since it was founded in 2010, windeln.de has become one of the leading online retailers for baby and toddler products with a presence in ten European countries. The company also operates a successful e-commerce business with products for babies and toddlers for customers in China.

The broad product range is sold via the German Shop windeln.de (including nakiki.de) and the International Shops pannolini.it, feedo and bebitus. The product portfolio includes everything from diapers, baby food, children's furniture, toys, clothes and strollers to child car seats.

windeln.de customers can order the products conveniently from home and have them delivered free of charge. They also benefit from numerous content and community offerings that respond to the needs of families, e.g., midwife advice, online magazines, blogs and forums. The strategic fulfillment network comprising five warehouses in Europe makes it possible to ensure fast delivery to all customers.

windeln.de currently has more than 400 employees in Germany and abroad. The Company has been listed in the Prime Standard of the Frankfurt Stock Exchange since May 6, 2015.

Shops: www.windeln.de, www.nakiki.de, www.windeln.ch, www.kindertraum.ch, www.toys.ch, www.pannolini.it, www.feedo.cz, www.feedo.sk, www.feedo.pl, www.bebitus.es, www.bebitus.pt, www.bebitus.fr and www.windeln.com.cn.

OUR CUSTOMERS

- Specialized in baby, toddler and children products
- Presence in 10 European countries and China
- Extensive, carefully chosen range of products
- Large variety of community and content offers
- High delivery quality
- Attractive pricing

OUR MARKET

- Steadily growing market for baby, toddler and children products
- Growing e-commerce market
- Increasing online penetration for baby, toddler and children products
- Strong growth of cross-border e-commerce to China
- High demand for German products in China

OUR GROUP

- Leading online retailer for baby, toddler and children products in Europe and China
- Constant growth since foundation
- Excellent, Europe-wide logistics and direct delivery to China
- Low rate of returns and high share of repeat customers
- Effective technology infrastructure
- Scalable business model

To the shareholders

v.v.: Jürgen Vedie, Alexander Brand, Konstantin Urban, Dr. Nikolaus Weinberger

LETTER FROM THE MANAGEMENT BOARD

Dear Ladies and Gentlemen, Dear Shareholders,

2017 was a challenging year for our company but we made further progress, achieved annual revenues of more than EUR 200 million for the first time and significantly increased operating contribution margin compared to the previous year.

As a company, we are constantly working to increase our profitability sustainably and to improve our processes. In this context, we announced certain measures to increase efficiency and profitability at the beginning of 2018. After the strong growth of the past years, we have seen the need to review our strategy, simplify structures and reduce costs. In the context of the upcoming CEO change, we have therefore carried out a detailed assessment of all business areas and initiated several measures. These include measures to reduce costs in numerous areas - including the reduction of headcount - and addressing businesses that are further away from reaching profitability. As a result, the local Italian business pannolini.it was closed and the divestiture of the Eastern European subsidiary Feedo was initiated. The entire Group will be streamlined and activities prioritized on regions with short- and medium-term profitability potential. Our goal is to reach break-even at the beginning of 2019 on the basis of adjusted EBIT, in order to be able to achieve sustainable profitable growth over the next few years. Although this step was difficult – especially with regard to the dismissal of some employees – we are convinced of the new strategic direction. Parallel to the announcement of the measures, we also carried out a capital increase of 2.6 million shares with gross proceeds of EUR 5.2 million. In addition to strengthening liquidity, the capital increase is also a strong positive signal from the shareholders to support the new strategic path.

In the past fiscal year 2017, improving our customer experience was the focus of our actions. We have migrated our online shops to an identical system landscape in order to better meet customer requirements with a uniform technological basis with a flexible shop and content management system and to sustainably improve service and quality. As a result, the company achieves technical and process-orientated synergy effects and optimizes IT resources. With the launch of our private labels “Avani” and “Darly” in 2017, we offer sustainable and high-quality products with a very good price-performance ratio. We were able to expand our product range with the introduction of large furniture in Germany and with the so-called “Dropshipping” we offer customers, in cooperation with our suppliers and logistic partners, a comprehensive range of services without increasing our stock. We are highly motivated by customers that place their trust in our company when choosing products for their children. We will continue to live up to their high expectations, to be a valuable support to young families and – with the right advice and suitable products – enrich the lives of families.

Due to the focus of marketing spending, revenues in our DACH business consequently declined last year. We have deliberately reduced revenues to bring the German shop closer to profitability and to find a healthy balance between marketing expenditure and revenues. In the medium term, we want to grow in our home market again and are confident to achieve this with our new strategy as well as the right content and services.

Our China business developed well in 2017. In particular, the turnover of our flagship store on Tmall Global is developing positively.

This success is reflected in the two awards that we received in 2017 and 2018 from Tmall Globalas one of only a few companies. This shows us that we are on the right path in China. We are constantly investing in projects that further enhance the shopping experience of our Chinese customers. Therefore, we have, among other things, introduced the payment methods China UnionPay in China and founded the company “windeln Management Consulting (Shanghai) Co., Ltd”. The proximity to the Chinese customer not only helps us to respond faster to customer needs but also enables us to anticipate trends and possible changes. Because of our great popularity and brand awareness in China we continue to expect solid growth in the next few years.

Our subsidiary Bebitus with activities in Spain, Portugal and France also contributed strongly to the growth. The business of Bebitus was fully integrated into the parent company in the past fiscal year. The integration of Bebitus was a key project in 2017 andenables us to benefit from synergy effects and significantly simplified processes.

In September, the supervisory board appointed Mr. Matthias Peuckert as new Chief Executive Officer. Konstantin Urban and Alexander Brand, the founders of windeln.de SE, leave the company after expiry of the contracts on 31 March 2018. They remain close to the company as shareholders. We are convinced that Matthias Peuckert, who is fully motivated to take up office, will lead our company – together with Jürgen Vedie and Dr. Nikolaus Weinberger – into profitability. With new ideas and his deep market and e-commerce understanding, he enjoys full support of the management board and supervisory board.

We want to thank the dedicated commitment, expertise and creativity of our employees, who contribute significantly to our success. We are proud of loyal employees who- despite extensive changes- support us, believe in the vision of our company and work on its implementation every day.

With full commitment, we strive for the sustainable success of our company. We thank our shareholders, business partner and customers for the trust in our company, the loyalty and the good cooperation.

Munich, March 2018

Alexander Brand   Konstantin Urban   Jürgen Vedie   Dr. Nikolaus Weinberger

REPORT OF THE SUPERVISORY BOARD

Dear shareholders,

In the financial year 2017, the supervisory board carried out its duties – as prescribed by law, by the articles of incorporation and by the rules of procedure and by the German Corporate Governance Code – actively and with great care, regularly advised the management board on managing the Company and continuously monitored the conduct of business of the Company.

Working with the management board

The supervisory board obtained regular and in-depth reports on the intended business policy, fundamental issues surrounding the financial, investment and personnel planning, the development of business as well as the profitability and liquidity of the Company. The corresponding financial key performance indicators were particularly monitored and controlled closely. In case actual business developments deviated from plans and targets, reasons were explained in detail to the supervisory board and documents were presented which were examined by the supervisory board. In addition, the management board discussed the Group's strategic focus with the supervisory board. The supervisory board was directly involved in all decisions of fundamental importance. Transactions requiring the approval of the supervisory board were explained by and discussed with the management board before any resolution was passed. These discussions took place at the meetings of the plenum and its committees as well as in exchange with the management board outside of meetings. The supervisory board was consulted directly and in due time on all decisions of fundamental importance to the Group. Outside of meetings, the chairperson of the supervisory board was in regular contact with the management board. Additional audit measures, such as the consultation of documents or the commissioning of certain subject experts, were not necessary.

Main topics of discussion

A total of eleven supervisory board meetings took place in the financial year 2017, in the months of January, March, April, May, July, August, September, November and December. Each meeting was attended by all supervisory board members (with the exception of one appointment in July, in September and in December, in which one member was not available); five of those meetings were held in conference calls.

In a conference call in January 2017, the Supervisory Board dealt above all with the budget plan drawn up by the Company's management board and adopted it.

At the meeting in March 2017, the supervisory board approved the separate and consolidated financial statements and the respective management reports for the financial year 2016. The auditor, elected at the annual general meeting, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Munich, who attended the meeting as well, reported about the results of its audit in detail. Furthermore, the management board presented the plans for the financial year 2017, especially regarding cost-cutting and efficiency initiatives. Finally, the supervisory board discussed the bonus for the management board for the completed financial year and resolved on the issue of shares under the 2017 Long Term Incentive Plan.

At the meeting in April 2017, the supervisory board held a conference call to discuss the upcoming annual general meeting. In this context, the supervisory board in particular approved the proposal of the supervisory board for the election of the auditors, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Munich, and the agenda for the 2017 annual general meeting. Moreover, the supervisory board also approved the proposed resolutions regarding the Long Term Incentive Plan 2018+, the bonuses for the members of the management board for 2016 and the criteria for the bonuses of the management board for the financial year 2017. At its meetings in May 2017, the supervisory board dealt intensively with the business development, above all in Germany and China, as well as the progress of the implementation of the "STAR" measures. The supervisory board also discussed the earn-out payments for Feedo and Bebitus. In addition, it dealt with the evaluation of the efficiency audit carried out regarding supervisory board activities. Finally, it adopted the competence profile for the supervisory board.

At the meeting in July 2017, the supervisory board discussed the relocation of the warehouse to Eastern Europe and approved the settlement agreement negotiated by the management board regarding the Bebitus earn-out payments. Furthermore, the supervisory board dealt with the current business development.

In August 2017, a phone call was held to approve the results of the first half of 2017 and their publication.

At the meeting in September 2017, the management board explained the business development to the supervisory board with a particular focus on Germany and Switzerland, discussed potential cost savings and gave an update on the integration of the subsidiary Bebitus as part of the "STAR" measures.

In a conference call at the end of September 2017, the supervisory board approved the appointment of Matthias Peuckert as member and chairman of the management board from May 1st 2018.

The meeting in November 2017 dealt with the topics quarterly report of the third quarter 2017, the local warehouse in China and cost savings. In addition, the completed Bebitus integration was discussed.

In December 2017, a purely informative telephone call as well as an additional meeting took place. In the latter, in which possible measures to reduce selling and administrative costs as well as the planning for the financial year 2018 were discussed.

Supervisory Board committees and their work

In order to carry out its tasks efficiently, the supervisory board set up an audit committee and a nomination committee.

During the financial year 2017, the audit committee consisted of Dr. Lange as committee chairman, Dr. Braun and Mr. Schwerdtle. In the reporting year, the audit committee had three meetings. The chairman of the audit committee also discussed audit-related topics with the auditor outside of meetings and without the attendance of the management board.

The focus of the meeting in March 2017 was the discussion of the consolidated and separate financial statements of the Group respectively the Company, the recommendation of the approval of the annual financial statements and the proposal for the election of Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Munich, as auditor and Group auditor of the financial year 2017. Furthermore, the ongoing business development and the status of the risk management system as well as the compliance status of the Group were discussed.
At the meeting in May 2017, the focus was on the financials for the first quarter, the annual audit for Bebitus and the internal controlling processes. In addition, the audit committee approved the election of PricewaterhouseCoopers as auditor for the Feedo Group.

In November 207, the business figures for the third quarter were discussed. In addition, issues of accounting were discussed as well as the routine audit by the German Financial Reporting Enforcement Panel (Deutsche Prüfstelle für Rechnungslegung (DPR)). The DPR selects a sample of listed companies for examination every year.

After each audit committee meeting, the chairman of the audit committee briefed the full supervisory board in detail about the topics of deliberation and the conclusions of the audit committee meetings.

The nomination committee consisted of Mr. Schwerdtle, Dr. Braun and Dr. Lange. The nomination committee met three times in the reporting year 2017.

At the first meeting of the year, in January 2017, the nomination committee addressed the development of employee numbers, the arrangement of a potential Long Term Incentive Plan, the Feedo earn-out payments and the successor of supervisory board member David Reis.

In addition, the nomination committee met at the beginning of March 2017 and proposed to the supervisory board to propose Mr. Tomasz Czechowicz to the annual general meeting as new supervisory board member.

In a further meeting at the end of March 2017, the nomination committee dealt with the planned Long Incentive Plan and recommended that the supervisory board confirms it. In addition, the nomination committee dealt with the bonus structure for the management board at this meeting.

Corporate Governance

The supervisory and management boards act in awareness that good corporate governance is in line with the interest of the shareholders and capital markets constitutes an important basis for the success of the Group.

In June 2017, the supervisory and management boards issued a joint declaration of conformity regarding the recommendations of the Government Commission pursuant to Sec. 161 German Stock Corporation Act (AktG) and made it permanently available on the website of the Group (www.corporate.windeln.de). The implementation of the German Corporate Governance Code is reported separately in this annual report.

In the reporting year, there were no conflicts of interest involving management or supervisory board members that would require immediate disclosure to the supervisory board and disclosure to the annual general meeting.

Audit of the separate and consolidated financial statements

During the meetings of the audit committee and the full supervisory board on 8th of March 2018, the annual financial statements and audit reports, in particular the separate annual financial statement of windeln.de SE pursuant to German statutory regulations for financial year 2017 as well as the consolidated annual financial statement of the Group pursuant to International Financial Reporting Standards (IFRS) for fiscal year 2017 as well as the respective management reports for financial year 2016 were discussed in detail. The auditor's reports, windeln.de SE's annual financial statements for the financial year 2017, the Group's annual financial statements for the financial year 2017 and the respective management reports, in each case in the version as prepared by the management board, had been submitted to the audit committee and the supervisory board in due time and were duly examined by both. The auditor, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Munich, had audited the annual financial statements together with the bookkeeping system. There are no concerns about the independency of the auditor. The auditor has concluded that the separate financial statements of windeln.de SE and the consolidated financial statements of Group in accordance with the accounting rules and regulations present a true and fair view of the net assets, financial position, results of operations, and cash-flows of windeln.de SE and the Group. The auditor has issued the final conclusions of the audits with unqualified opinions. As part of assessing the risk management system, the auditor also concluded that the management board has taken the steps required by Sec. 91 (2) AktG to identify, at an early stage, developments jeopardizing the continuation of the Group. When the audit committee and supervisory board deliberated the separate and consolidated financial statements, representatives of the auditor were present who reported on the significant findings of the audit and were available to take the supervisory board's questions.

Based on the final conclusions of the audit committee's examination and based on the supervisory board's own examination, the supervisory board concurred with the auditor's final conclusions and determined that no objections are to be raised. The supervisory board approved the separate and consolidated financial statements and the respective management report for the financial year 2017 by means of a circular resolution on 12th March 2018. The financial statements of windeln.de SE are thus ratified.

Changes in the management and supervisory board

The composition of the management board did not change in the financial year 2017.

The composition of the supervisory board of the Company changed in the financial year 2017: after David Reis resigned as member of the supervisory board on August 31st 2016, his successor Tomasz Czechowicz was elected by the annual general meeting on June 2nd, 2017.

On behalf of the supervisory board, I would like to sincerely thank the management board and all the employees of the windeln.de Group for their immense personal dedication and their contribution to the financial year 2017.

Munich, March 2018
On behalf of the supervisory board

Willi Schwerdtle, chairperson of the supervisory board

CORPORATE GOVERNANCE STATEMENT AND REPORT

windeln.de is convinced that good and transparent corporate governance that meets national and international standards is a key factor in the Company's long-term success. Corporate governance is therefore part of windeln.de's philosophy and a requirement for all operating segments. The management board and supervisory board consider themselves obliged to using a responsible and long-term corporate governance system in order to safeguard the existence of the Company and provide sustainable added value. In this report, the management board reports –at the same time for the supervisory board – on the management of the Company pursuant to no. 3.10 of the German Corporate Governance Code (GCGC) as well as pursuant to Secs. 289a, 315 (5) German Commercial Code (HGB).

1. Declaration by the management board and supervisory board of on the "Government Commission German Corporate Governance Code" pursuant to Sec. 161 German Stock Corporation Act (AktG)

windeln.de aims to confirm the trust placed in it by investors, financial markets, business partners, employees and the public and enhance corporate governance in the Group. The management board and supervisory board focused extensively on meeting the requirements of the German Corporate Governance Code (GCGC) in financial year 2017. The following declaration of conformity was issued in June 2017:

The last declaration of conformity pursuant to section 161 AktG regarding the recommendations of the "Government Commission German Corporate Governance Code" (hereinafter the "Code") was made in May 2016. The following declaration is based on the Code in its version of 5 May 2015 as published in the official section of the Federal Gazette (Bundesanzeiger) on 12 June 2015 for the period from the publication of the last annual declaration of conformity until 23 April 2017 and on the Code in its version of 7 February 2017 as published in the official section of the Federal Gazette (Bundesanzeiger) on 24 April 2017 for the period starting 24 April 2017.

The management board and the supervisory boardsupervisory board of windeln.de SE declare that windeln.de SE has, since the publication of the last annual declaration of conformity in May 2016, acted in conformity with the recommendations of the "Government Commission German Corporate Governance Code" and here after will act in conformity with it, in each case with the following exceptions:

- No. 4.2.1 sentence 1: According to the Code's recommendations, the management board shall have a chairman or spokesman. Given the size of the management board with four members, the supervisory board and the management board are of the opinion that the members of the management board shall operate on an equal footing without any member performing the function of chairman or spokesman.
- Nos. 4.2.4 and 4.2.5: According to the Code's recommendations, the compensation of the members of the management board shall be disclosed by name, divided into fixed and variable components as well as fringe benefits. These recommendations are not complied with because the shareholders' meeting of the Company held on April 21, 2015 resolved that the compensation of the members of the management board shall not be disclosed by name in the annual consolidated financial statements of the Company to be prepared for the fiscal years 2015 up to (and including) 2019 in accordance with Sections 286 para. 5, 314 para. 2 sentence 2, 315a para. 1 of the German Commercial Code (Handelsgesetzbuch - HGB). For the duration of this "opt-out" resolution, the Company will abstain from including the disclosures recommended under No. 4.2.5 para. 3 of the Code in the Company's compensation report.
- No. 5.4.1 para. 2 and 4: According to the Code's recommendations, the supervisory board shall determine concrete objections regarding its composition and shall take these targets into account for proposals to the General Meeting. Within the company-specific situation, these targets shall take into account the international activities of the company, potential conflicts of interest, the number of independent supervisory board members within the meaning of number 5.4.2 of the Code, an age limit and a regular limit to supervisory board members' term of office, both to be specified, as well as diversity. In deviation from the criteria mentioned by the Code, a number of independent supervisory board members has not been determined as according to the assessment of the supervisory board all supervisory board members were and are independent within

the meaning of number 5.4.2 sentence 2 of the Code and thus such a determination was not considered necessary. Further, the supervisory board refrained from determining a rigid age limit for supervisory board members as well as a regular limit to supervisory board members' term of office. The Company first established a supervisory board upon its reorganisation into a stock corporation in 2015 and the regular term of office of all supervisory board members end with the annual General Meeting 2018. As at this point in time no supervisory board member will be older than 65 years, according to the assessment of the supervisory board, a determination of an age limit and a regular limit to supervisory board members' term of office was not necessary. After due consideration, the supervisory board with resolution of 2 June 2017 determined that the number of supervisory board members who shall fulfil the criteria for independence according to the Code shall be at least three. It has further resolved an age limit of 72 years at the time of election as well as a regular limit to the supervisory board members' term of office of twelve years. From this particular time, all criteria mentioned in number 5.4.1 para. 2 of the Code regarding the targets of the supervisory board for its composition have been and will be complied with. The recommendation in number 5.4.1 para. 4 sentence 3 of the Code in its version of 24 April 2017 according to which the Corporate Governance Report shall inform about what the Supervisory Bard regards as the appropriate number of independent supervisory board members representing shareholders, and the names of these members, will be complied with in the future as well. Only for the period up to 2 June 2017 a deviation from the recommendation is declared. The Code in its version of 24 April 2017 contains the new recommendation in number 5.4.1 para. 2 and 4, that the supervisory board shall prepare a profile of skills and expertise for the entire Board and shall aim at fulfilling the overall profile of required skills and expertise. The supervisory board has prepared a profile of skills and expertise for the entire board after this new recommendation came into force and has resolved on it on 2 June 2017, so that from this point in time this new recommendation is complied with.

- No. 5.4.6 para. 1 sentence 2: According to the Codes recommendation, exercising the chair and deputy chair positions in a supervisory board as well as the chair and membership in committees of a supervisory board shall be accounted for in the compensation. According to the current resolution of the General Meeting as well as according to the proposed resolution for the annual General Meeting called for 2 June 2017, the chairmanship in the Supervisory board is taken into account, but no additional compensation is paid for the deputy chair position or any membership in committees of the supervisory board. Given the size of the supervisory board as such and of its committees, the management board and the supervisory board take the view that the current supervisory board compensation is sufficient.
- No. 5.4.6 para. 3: According to the Codes recommendation, the remuneration of supervisory board members as well as possible remuneration for services rendered personally by supervisory board members shall be disclosed individually in the notes to the financial statements or the management report, classified by remuneration components. This was and is not complied with. The remuneration of the supervisory board resolved upon by the General Meeting and the expenditure for the fiscal year are disclosed in the compensation report as part of the consolidated annual report aggregated and not separately on an individual basis and not classified by remuneration components. The management board as well as the supervisory boardsupervisory board think that the information provided fulfil the legal requirements and convey a sufficiently detailed picture.
- No. 7.1.2 sentence 4 or sentence 3 respectively: According to the Code's recommendations, interim reports (the Code in its version of 5 May 2017) or mandatory interim financial information (the Code in its version of 7 February 2017) shall be made publicly accessible within 45 days of the end of each reporting period. For organizational reasons, the Company was unable to comply with this time limit for the fiscal year 2016 and published the interim financial reports for the interim periods of the fiscal year 2016 within a period of two months following the end of the relevant reporting period. Since the first quarter of 2017, windeln.de SE complies with this recommendation.

Pursuant to Sec. 161 (2) German Stock Corporation Act (AktG), the declaration of conformity is permanently available to shareholders and all other interested parties under the section Corporate Governance on the Company's website.

2. Disclosures on corporate governance practices

The efficient structures and processes in the windeln.de Group guarantee responsible management that is geared towards adding sustainable added value and is focused on shareholder rights. Openness and transparency are always the top priorities in corporate communication. This is a key requirement in maintaining and increasing the trust placed in windeln.de by our investors, our employees and the public. As windeln.de SE is a European online company with registered office in Munich, the German stock corporation, co-determination and capital market law, the articles of incorporation and bylaws and the corporate governance code implemented to meet the individual needs of the Company are the foundations for establishing the management and monitoring structure in the Group. These principles are also applied in the remaining group companies in addition to applicable local regulations.

The social and ethical responsibility of the windeln.de Group is defined – amongst others - in the code of conduct, which applies to all employees of the Group. windeln.de has established a risk management system – applied in the parent company of the Group as well as in the remaining Group companies - to identify, control and monitor risks and opportunities at an early stage. The continuous improvement of the instruments used in the risk management system aims to ensure that risks and opportunities (including potential compliance risks) are identified and managed in a uniform way throughout the Group. All employees of the windeln.de Group are obliged to act risk-aware and avoid any risks that could endanger the ability of the Company to continue as a going concern. In addition, communication lines – with the option of anonymity – are in place to report any assumed breaches of compliance. The management board is responsible overall for the functioning of the risk management system at windeln.de SE and the Group, while the supervisory board is responsible for monitoring its effectiveness.

The declaration including disclosures on corporate governance practices is available on the Company's website (https://corporate.windeln.de).

3. Working practices of the management board and supervisory board

The management structure of windeln.de is primarily determined by the corporate law requirements environment. In addition, windeln.de SE as a European stock corporation, is subject to the special European SE regulations as well as the German SE implementation act. Choosing the dual management and control structure (management board and supervisory board), key elements of German corporations are also applicable to windeln.de SE. The management board is responsible for managing the Company at its own responsibility. The supervisory board advises the management board and monitors its management activities.

The management board and supervisory board work closely together in the interests of the Company. Their mutual aim is to sustainably increase its corporate value. The management board regularly reports to the supervisory board in a timely manner and in detail on issues of relevance for the Company concerning strategy, planning, the development of business, the risk position, risk management and compliance. Deviations from objectives and planning are explained to the supervisory board and its committees. The Group's strategic focus and direction is also coordinated and discussed with the supervisory board.

The management board of windeln.de SE

As of December 31, 2016, the management board of windeln.de SE consisted of four management board members with equal rights. They each have their own management board function, which comprise the individual segments.

The windeln.de Group is managed by the management board of the parent company, windeln.de SE. All management functions are bundled here. One of the main tasks of the management board is to define the Company's strategy, responsibilities and risk management. The management board is also responsible for preparing the separate, consolidated and interim financial statements as well as for establishing and monitoring a risk management system.

All members of the management board hold joint responsibility for the management of the Company and keep each other informed of any significant events and transactions. The management board's rules of procedure govern the allocation of duties among the management board members as well as the resolution procedure. Specifically, the catalogue of information and disclosure requirements are defined as well as the matters that require the approval of the supervisory board.

The supervisory board of windeln.de SE

As of December 31, 2017, the supervisory board was made up of the following six members, all of whom were elected by the general meeting: Mr. Willi Schwerdtle (chairman), Dr. Christoph Braun (deputy chairman), Dr. Edgar Carlos Lange, Mr. Nenad Marovac, Mrs. Petra Schäfer and Mr. Tomasz Czechowicz. At the annual general meeting on June 2, 2017, Mr. Tomasz Czechowitz was elected as successor of Mr. David Reis. Mr. David Reis retired from the supervisory board at his own request on August 31, 2016. The supervisory board as a whole has excellent knowledge of the e-commerce business.

All supervisory board members have the same terms of office that end with the 2018 annual general meeting.

The supervisory board monitors and advises the management board on the conduct of its business. It reviews the financial statements, the management report and the proposal for the appropriation of net retained profit as well as the consolidated financial statements and group management report. Taking into account the audit reports of the auditors of the financial statements, it ratifies the financial statements of windeln.de SE and approves the consolidated financial statements as well as the management reports. The supervisory board is also responsible for appointing the members of the management board and preparing and concluding contracts of employment with members of the management board. The supervisory board discusses the development of business and planning with the management board, as well as the corporate strategy and its implementation, at regular intervals. In the context of the strategic evaluation of the Company, the risk management and the reporting system, the management board communicates with the entire supervisory board, and not just with the chair of the supervisory board, as this would be less efficient.

The supervisory board has set its own rules of procedure. These define the tasks, obligations and internal order of the supervisory board and also include more detailed regulations on the duty of confidentiality, on dealing with conflicts of interest as well as the formation and work of the committees. The supervisory board holds at least two meetings per six-month period. Resolutions of the supervisory board may also be passed outside meetings, specifically in writing, by fax or by e-mail.

In order for the supervisory board to be able to perform its tasks in an optimal way, the supervisory board's rules of procedure provide for two standing committees. The work of the committees is regularly reported to the supervisory board.

The main task of the audit committee is to support the supervisory board in meeting its control obligation in terms of the correctness of the separate and consolidated financial statements, the work of the auditor as well as the internal control functions, especially risk management. The audit committee included Dr. Lange (committee chairman), Dr. Braun (deputy committee chairman) and Mr. Schwerdtle in the reporting year. In his role as financial expert, the chairman of the audit committee holding the position in the reporting period, Dr. Lange, meets the requirements in terms of his independence and knowledge of the areas of financial reporting and auditing.

The nomination committee prepares suggestions for the nomination of supervisory board members to be presented to the general meeting; it also examines the remuneration structure of the management board and other management positions at windeln.de in accordance with the mandate given by the supervisory board. In financial year 2016, the nomination committee was made up of Dr. Braun (committee chairman), Mr. Schwerdtle (deputy committee chairman) and Mr. Lange.

Committees of the supervisory board as of December 31, 2017

Audit committee:	Dr. Edgar Carlos Lange (committee chairman)
	Dr. Christoph Braun (deputy committee chairman)
	Mr. Willi Schwerdtle

Nomination committee:	Dr. Christoph Braun (committee chairman)
	Mr. Willi Schwerdtle (deputy committee chairman)
	Dr. Edgar Carlos Lange

Considering the German Corporate Governance Code, the supervisory board set targets relating to its composition. The supervisory board aims at a composition which considers the special needs of the Company and ensures that the management board is supervised, monitored and advised in a competent and qualified manner. The nominees proposed for election to the supervisory board should – on basis of their knowledge, skills and professional experience – be able to carry out the tasks entrusted to them properly. In addition, every member ensures available time sufficient to fulfil their duties. The supervisory board set the following material objective targets: The members of the supervisory board may not assume mandates in boards of or advising activities to competitors of the Company; considering the international focus of the Company, it shall be made sure that an four board members have extensive international experience; the supervisory board shall especially ensure diversity when proposing new members; the supervisory board shall comprise at least one female member; the supervisory board shall consist of at least three independent members; members of the supervisory board shall generally not serve on the board for more than 12 consecutive years; not more than two former members of the management board of windeln.de SE shall be members of the supervisory board; candidates for the supervisory board should generally not be older than 72 years at the time of their election by the general meeting; the most important criterion for the appointment to the supervisory point is the qualification of the nominee. These targets relating to the composition of the supervisory board are fully achieved.

Regulations in accordance with Sec. 76 (4) and Sec. 115 (5) AktG

The “law on gender equality in managerial positions in the private and public sector” dated April 24, 2015 and which came into effect as of May 1, 2015 requires windeln.de SE to define targets for the female representation quota in the supervisory board and management board and in the two management levels below the management board. The targets are defined by the supervisory board for the supervisory board and management board, and by the management board for the two management levels below the management board.

In 2016, the supervisory board (relating to the composition of the supervisory board and management board in accordance with Sec. 111 (5) AktG) and the management board (relating to the composition of the other management levels in accordance with Sec. 76 (4) AktG) set the following targets for the quota for female representation in the respective boards, committees and management levels with an implementation deadline by June 30, 2017:

Level	Quote
Supervisory board	0%
Management board	0%
First management level	30%
Second management level	30%

With regards to the supervisory board, the management board and the first management level, the company achieved the targets as of June 30, 2017. With regards to the second management level the company missed the target as employees left the company or took parental leave. The respective positions were partially not filled or not filled with women. In order to achieve the targets in the future, the management board deployed an equal opportunities representative. This representative inter alia ensures that women are sufficiently considered during promotion procedures.

In 2017, the supervisory board (relating to the composition of the supervisory board and management board in accordance with Sec. 111 (5) AktG) and the management board (relating to the composition of the other management levels in accordance with Sec. 76 (4) AktG) set new targets for the quota for female representation in the respective boards, committees and management levels with an implementation deadline by June 30, 2022:

Level	Quote
Supervisory board	20%
Management board	20%
First management level	30%
Second management level	30%

The Company is also aiming for women to join the supervisory board and management board in the medium term.

4. Additional disclosures on corporate governance

Shareholders and general meeting

Shareholders may exercise their rights at the general meeting and exercise their voting rights there. Each share carries one vote. There are no shares with multiple voting rights or preferential voting rights or maximum voting rights. The annual general meeting, where the management board and supervisory board give account on the past financial year, is held once a year. The shareholders have the opportunity to exercise their voting rights at the general meeting in person or by a proxy of their choice or by a proxy appointed by the Company who is bound to follow instructions.

The management board presents the separate and consolidated financial statements to the general meeting. The general meeting decides on the appropriation of any net retained profit and resolves on the exoneration of the management board and supervisory board as well as the election of the auditors. Where necessary, the general meeting resolves on amendments to the Company's articles of incorporation and bylaws, elects the members of the supervisory board and resolves on other items in the agenda requiring resolutions.

Systematic risk management

Thanks to its established internal control system, the Company is able to recognize any business and financial risks at an early stage in order to be able to take corresponding countermeasures. This control system is designed in such a way that risks can be promptly monitored and it can be ensured that all business transactions are correctly accounted for; this system is also designed in such a manner that there is always reliable data on the financial situation of the Company.

Transparency

Shareholders, financial analysts, shareholders' associations, the media and the interested public are given regular timely updates on the situation of the Company as well as on significant changes to the business. This guarantees the greatest possible level of transparency. The objective is to further expand the trust placed by investors in the value potential of windeln.de SE. Relevant events are disclosed on an ongoing, timely and reliable basis. Insider information that directly affects the Company is published without delay by the Company in accordance with the statutory requirements. Discussions are held regularly with private and institutional investors at the general meeting and capital market events such as roadshows and conferences. In line with the principle of fair disclosure, all shareholders and key target groups are treated the same in terms of information relevant for valuation. Information on significant new circumstances are made available to the broader public without delay.

The Company's website, http://corporate.windeln.de, serves as a central platform for publishing current information about the Company. Financial reports, presentations from analysts and investor conferences as well as press releases and ad hoc announcements about the Company are also available there. Dates of key annual publications and events (for example, annual report, interim reports, general meeting, etc.) are released with sufficient notice. Notifications of securities transactions that must be reported by members of the management board and supervisory board of windeln.de SE as well as by related parties (directors' dealings) can also be found on the website http://corporate.windeln.de, which are published immediately after the corresponding notification is received. The same applies for voting rights announcements submitted in accordance with Sec. 21 et seq. WpHG.

Financial reporting and annual audit

Financial reporting is performed at group level in accordance with the International Financial Reporting Standards (IFRS) and the separate financial statements in accordance with local GAAP (HGB). Reporting follows the statutory and stock exchange obligations with the separate and consolidated financial statements as well as an interim report for the first half of the year and quarterly statements for the first and third quarter of the year. The annual report and internet presence are – in line with international standards – also available in English; the annual report and interim reports can be found on the Company website http://corporate.windeln.de. The consolidated financial statements are prepared by the management board and audited by the auditor as well as the supervisory board. The auditor was Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, appointed by the Annual General Meeting on June 2, 2017. The auditor issued a declaration of independence to prove to the supervisory board its independence. The auditor took part in the both the meetings of the audit committee and the supervisory board on March 8, 2018 to discuss the 2017 separate and consolidated financial statements; in particular, the auditor reported to the audit committee and supervisory board the results of the audit of the separate financial statements and management report of windeln.de SE as of December 31, 2017 (HGB) as well as the consolidated financial statements and group management report of windeln.de SE as of December 31, 2017 (IFRS). It was agreed with the auditor of windeln.de SE that the chair of the supervisory board would be informed without delay of any reasons for disqualification or any factors affecting impartiality if they arise during the audit, unless they are remedied immediately. Relationships to shareholders that qualify as related parties as defined by the underlying accounting provisions are explained in the consolidated financial statements.

Remuneration of the management board and the supervisory board

The basics of remuneration of members of the management board and supervisory board are explained in detail in the remuneration report. The remuneration of members of the management board is presented according to the statutory requirements, especially broken down into non-performance-based (fixed salaries and fringe benefits) and performance-based components (variable annual bonus) as well as components with long-term incentives. The remuneration of the supervisory board was defined by the general meeting and is also presented in the remuneration report. The remuneration report is part of the notes to the consolidated financial statements and is published in the annual financial report.

Stock option plans and securities based incentive systems

A remuneration structure was introduced for selected senior management employees for the first time in financial year 2011, which includes a long-term, performance-based variable remuneration component in the form of virtual stock options that were converted into physical stock options during the IPO. In addition, a long-term, performance-based variable remuneration component based on the long-term incentive program ("LTIP") of windeln.de SE was launched in financial year 2015. The performance-based variable remuneration component was extended in 2017. The details of this can be found in the notes to the consolidated financial statements of the windeln.de SE Group.

Directors' Dealings and shareholdings of members of the management board and supervisory board

Art. 19 of the market abuse regulation ("Marktmissbrauchsverordnung"; "MAR") requires key management personnel at windeln.de SE as well as closely related parties to announce any transactions with shares in windeln.de SE or related financial instruments within three business days. In 2016, no transactions were reported to windeln.de SE.

Beyond this statutory notification requirement, the ownership of shares in the Company or related financial instruments by management board and supervisory board members should be announced if it is directly or indirectly greater than 1% of the shares issued by the Company in accordance with no. 6.2 GCGC. Management board members Alexander Brand and Konstantin Urban indirectly hold 911,922 and 1,745,862 shares respectively in windeln.de SE. The other members of the supervisory board and management board of windeln.de SE directly or indirectly hold less than 1% of the shares in the Company. The aforementioned disclosures relate to the December 31, 2017 reporting date.

SHARE OF WINDELN.DE SE

Capital market environment

The conditions for the stock market were favorable in 2017. Robust economic growth, rising corporate profits, low inflation and even lower interest rates boosted share prices, bringing new highs in many regions. In the United States (US), the economy grew at an annual rate of around 2.5 percent in 2017, 2.5 percent in the eurozone as well and China is benefiting from a government stimulus program, which has boosted the economy by 6.9% in 2017. The low interest rate environment and the continuing expansive monetary policy of the European Central Bank as well as the US Federal Reserve´s moderate hike had a positive impact on the stock market. Especially in the months of September and October, the German benchmark index DAX reached an all-time high and exceeded the mark of 13,000 points for the first time. Even though growth slowed down towards the end of the year, it rose in 2017 - despite the federal election, Diesel scandal and AirBerlin bankruptcy - by almost 13 percent.

windeln.de share

The share of windeln.de SE has been traded on Frankfurt Stock Exchange in the Prime Standard since May 6, 2015. On the first trading day of the of the past financial year, the closing price was EUR 3.22 (figures based on XETRA). The year high was reached at EUR 4.07 in the second quarter on June 2, 2017. The lowest price was observed December 7, 2017 at a price of EUR 1.90. Towards the last trading day of the year the price closed at EUR 1.92 on December 29, 2017.

Basis data (as of December 31, 2017)

WKN	WNDL11
ISIN	DE000WNDL110
Stock exchange abbreviation	WDL-DE
Industry	E-Commerce
Trading segment	Regulierter Markt (Prime Standard)
Designated sponsor	Equinet Bank AG
Initial listing	6. Mai 2015
Type of share	Nennwertlose Inhaber-Stammaktien
Number of shares as of January 1, 2017	26,317,970
Number of shares as of December 31, 2017	28,472,420
Share price as of January 2, 2017*	EUR 3.22
High for the period on June 2, 2017	EUR 4.07
Low for the period on December 7, 2017	EUR 1.90
Share price as of December 29, 2017*	EUR 1.92

* XETRA-Schlusskurse

Research analysts

Institute	Analyst
Equinet Bank AG	Mark Josefson
Montega AG	Frank Laser
Commerzbank AG	Sabrina Taneja

Capital measures and market capitalization

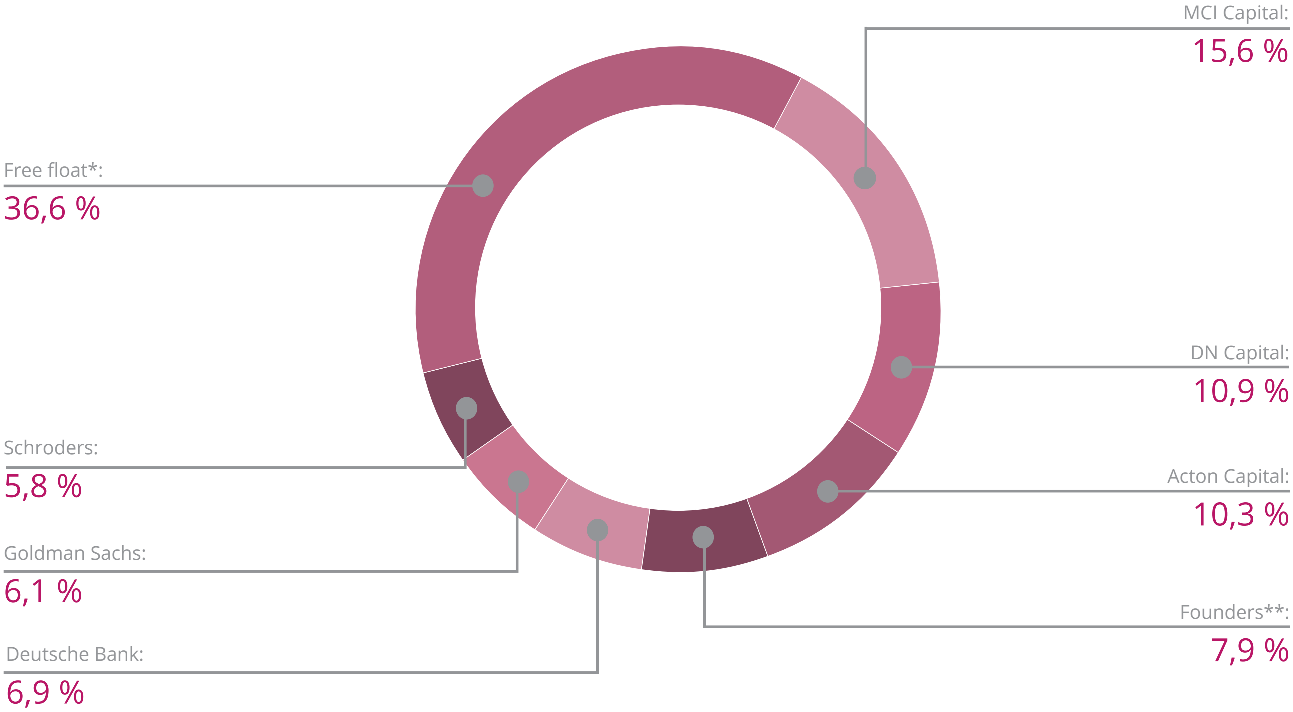
The number of shares of windeln.de SE amounted to 26,317,970 shares at the beginning of 2017.

With entry in the commercial register dated August 9, 2017, the capital stock of the windeln.de SE was increased by a further EUR 312,438 to EUR 26,630,408; the capital increase is attributable to subsequent purchase price payments for the sellers of the Feedo Group.

On August 28, 2017 a further capital increase of EUR 1,842,012 was entered to a total of EUR 28,472,420; the capital measure is attributable to the purchase price payment for the founders of Bebitus.

On the basis of 28,472,420 shares, the market capitalization of windeln.de SE amounted to EUR 55 million on December 31,2017.

Shareholder structure and free float



As of December 31, 2017

Disclaimer: The shareholder structure pictured above is based on the published voting rights announcements and company information. windeln.de SE assumes no responsibility for the correctness, completeness or currentness of the figures.

** Free float stands at 36.6% according to the definition of Deutsche Börse*
*** Aggregate shareholding of the founders*

Investor Relations (IR)

The management of windeln.de SE sets high priority to an intensive dialogue with the capital market and attaches great importance to regular and transparent communication with the shareholders and stakeholders of the company. It is the ultimate goal to communicate the latest Company development in a timely manner. To ensure this, windeln.de relies on the regular publication of Company-relevant reports, comprehensive financial reporting, and especially on the permanent personal contact with investors, analysts, journalists and the interested public.

In the past year, a regular exchange between investors and management board took place in the context of roadshows, capital market conferences, individual meetings and numerous telephone conferences. The investor meetings carried out in 2017 led the management of the Company to Frankfurt, Hamburg, London and Munich. windeln.de also participated in numerous investor conferences: Oddo Forum, Dr. Kalliwoda Capital Markets Conference, Oddo Seydler Small & Mid Cap Conference, Goldman Sachs European Mid Cap Symposium, Commerzbank Sector Conference, Goldman Sachs/Berenberg German Corporate Conference, Eigenkapitalforum of Deutsche Börse and Munich Kapitalmarktkonferenz. In addition, in September 2017, research analysts and other relevant capital market participants had the opportunity to better get to know windeln.de at a Capital Markets Day in the Company´s headquarter in Munich. On the occasion of the publication of annual and quarterly results, telephone conferences and webcasts were held for shareholders, research analysts and other capital market participants. The corresponding presentations and recordings are available on the Company´s website in the Investor Relations section. The management and the Investor Relations department were available to interested parties for questions and personal discussions.

For investors, analysts and the interested public, the website https://corporate.windeln.de/ provides further information that is constantly updated. In addition to the financial reports, mandatory reports and corporate news, visitors to the website will find the latest version of the Company presentation as well. Further, there is the possibility to register for an electronic mailing list in order to be supplied promptly and directly with important corporate news.

Financial calendar

Publication of full year 2017 results:	March 14, 2018
Publication of first quarter results 2018:	May 9, 2018
Annual General Meeting 2018:	June 25, 2018
Publication of first quarter results 2018:	August 9, 2018
Publication of nine months results 2018:	November 8, 2018

IR contact
Judith Buchholz
E-Mail: investor.relations@windeln.de

GROUP MANAGEMENT REPORT AS OF DECEMBER 31, 2017

1. FUNDAMENTAL INFORMATION ABOUT THE GROUP

1.1. Group business model

Since its formation, the windeln.de SE Group ("windeln.de" or the "Group") has become one of Europe´s leading and fastest growing online retailer for baby, toddler and children products. The parent company, windeln.de SE, was founded in 2010 and has its registered office in Munich, Germany. The successful business model has already been implemented in ten European countries as well as in China.

The Group works with around 500 suppliers in order to offer its clients a large selection of products through the webshops windeln.de, nakiki.de, bebitus.com, bebitus.pt, bebitus.fr, feedo.cz, feedo.pl, feedo.sk, windeln.ch, kindertraum.ch, toys.ch and pannolini.it, which they can order from the comfort of their homes. Products range from diapers, baby food and drugstore products to clothes, furniture, toys and safety products, such as car seats.

windeln.de also serves customers in China through its website "windeln.com.cn". Furthermore, through a flagship store, the Group has been present on the Chinese online platform Tmall Global ("windelnde.tmall.hk") since 2016.

In 2017, windeln.de supplied its customers from six warehouses (Großbeeren near Berlin/Germany; Uster/Switzerland; Prague/Czech Republic; Barcelona/Spain; Milan/Italy and China). This fulfilment network offers the possibility to serve all markets efficiently. Furthermore, the Group runs a retail shop in Grünwald near Munich (Germany).

The customers are the top priority for windeln.de. To be able to guarantee a positive shopping experience, the Group's webshops offer customers free delivery with a certain minimum order as well as a range of community and content offers, e.g. online advice, personal recommendations and a competent customer service.

1.1.1. International growth

a) Europe

The strong growth of the company is also attributable to the international expansion strategy. Since its foundation in 2010, windeln.de has established its business model into nine additional European markets and delivers into 23 European countries. Internationalization has been both organic as well as through acquisitions.

After the success in Germany, windeln.de started its deliveries to European countries in 2011. In 2013, the online shop "windeln.ch" went live. At the end of 2013, the Swiss company Kindertraum.ch-AG, which had developed the online shops "www.kindertraum.ch" and "wwwtoys.de", was acquired. To be able to guarantee a uniform brand reinforcement, the company was renamed to windeln.ch in 2014. In Southern Europe, the formation of pannolini.it-S.R.L. opened up access to the Italian market in 2015 and the purchase of Bebitus Retail S.L. (now Bebitus Retail S.L.U.; hereinafter referred to as "Bebitus") tapped into the markets in Spain, Portugal and France. Feedo Sp. Z o.o. and its subsidiaries (hereinafter referred to as "Feedo Group") in Eastern Europe were also acquired, covering the markets in Czech Republic, Poland and Slovakia. The Group offers country-specific websites as well as a local range of products in these markets to be able to respond to the needs of the respective regions.

There is substantial growth potential in the international markets due to the lower market share of the Group in comparison to Germany and the online share of the market for baby and children products. The successful integration of new markets by creating efficient processes, leveraging synergies and ensuring an ongoing exchange is a focal point of internationalization.

b) China

Since 2012, windeln.de has also been active in the Chinese cross-border e-commerce market where foreign baby products are also sold to customers in China. On account of several scandalous affairs concerning tainted infant milk powder produced in China, there is a general distrust in domestic products. That is the reason why the demand for especially German products increased significantly. The supply of German and European products makes windeln.de an attractive choice for Chinese customers. In recent years, windeln.de has been able to continuously expand its customer base in China.

In order to make shopping more comfortable, the payment platform Alipay has been offered to the Chinese customers since 2013. In 2017, the popular payment method China UnionPay was also introduced for Chinese customers. Furthermore, there has been a Chinese version of the “windeln.de” website since 2014, which was replaced at the end of 2016 by the webshop “www.windeln.com.cn”. Since 2015, it has been possible to deliver directly to China, which provides a lower-cost and more comfortable alternative to the delivery through freight forwarders. A delivery via freight forwarders has not been available anymore since the end of 2017. Since 2016, Chinese customers have been able to select a duty-paid, in addition to the duty unpaid, shipment in the webshop. Thereby, the applicable tax on goods is already collected at the check-out in the shop and directly transferred by a logistics partner to the customs. This enables fast and efficient customs clearance.

An important step was the opening of the Tmall Global flagship store in 2016, Alibaba´s digital marketplace for foreign brands. Alibaba´s digital marketplace offers access to around 400 million active customers per month. The successful Singles Day 2016 with revenues of EUR 0.9 million within 24 hours could be exceeded in 2017 many times over: on Singles Day 2017, an order intake amounting to EUR 3.5 million could be registered within 24 hours.

The new Chinese webshop “windeln.com.cn” runs on a new, Group-wide uniform technology platform, that offers responsive design. Customers can see web content in high resolution on all terminal devices. This plays an important role for the above-average number of purchases that are made through mobile devices in China.

In addition, a server was put into operation in China in 2017, which could significantly reduce the loading times of the Chinese website. In addition, in the fourth quarter, the website was provided with a certificate that promotes the trust of Chinese customers in the platform as it identifies the identity of the website’s owners.

Several activities in different Chinese communities and forums as well as a Chinese customer service contribute to customer care and immediate customer communication. In order to further develop the Chinese market, the windeln Management Consulting (Shanghai) Co., Ltd. was founded in 2017.

1.1.2. Product mix

With carefully chosen products for the needs of families with young children, the Group offers its customers a comprehensive product mix. Particular attention lies on the coverage of local specialties as well as on ecologically and sustainably produced articles. The range of consumables, including those needed on a daily basis, such as diapers, baby food and drugstore items, as well as durables, such as strollers, car seats and children´s furniture, makes windeln.de a central point of contact for all purchases surrounding babies and children. The continuous enhancement of the product portfolio ensures that windeln.de also remains attractive for regular customers.

The assortment selection as well as strategic purchasing activities and the disposition are carried out within uniform Group-wide structures. In financial year 2017, Bebitus´ purchasing was integrated into central purchasing. As a result, there are only two purchasing organizations (Feedo and windeln.de SE) across the Group intensively maintaining relationships with more than 500 suppliers. As in previous years, the contact with suppliers for a local assortment selection is maintained by the local subsidiaries.

The Group is consistently pursuing the further development of its own brand business. The product range includes the four brand worlds “Max&Lilly”, “Dimbo World”, “Darly” and “Avani” as a sustainable and ecological alternative. The product range is focused on few product areas with high turnover and margin potential and is constantly being expanded. At the end of 2017, an own diaper with matching wet wipes was thus launched under the name “Darly”.

1.1.3. Fulfilment/operations

The windeln.de Group currently has a central fulfilment center in Großbeeren (near Berlin, Germany) and four local logistics locations in Prague (Czech Republic), Barcelona (Spain), Arese (Italy) and Uster (Switzerland). The fulfilment centers are the basis of efficient delivery to customers in Europe and China. In addition, in 2017, the Group operated a local warehouse in China, which is used for selected products for sales on the Tmall Global platform. The Group is currently evaluating whether this warehouse should continue to exist in the future. The warehouse in Uster (Switzerland) was largely dissolved in 2017 and integrated into the logistics center in Großbeeren. A limited range was outsourced to an external service provider in Switzerland at the same location.

The windeln.de Group continues to pursue its asset-light-strategy: almost all the logistics centers of the Group are operated by external service providers. This serves as the basis for efficient and constant growth of the Group. Only the warehouse of the Feedo Group in Czech Republic is operated within the Group.

Even though the logistics are outsourced, essential processes of the fulfilment are controlled by Group employees and therefore represent a substantial know-how of the Group. The Group has its own teams to coordinate and develop procurement and distribution structures. Optimized flow of goods, packaging efficiency and quality as well as speed of delivery represent decisive factors for the improvement of cost efficiency and for the maximization of customer satisfaction. As of October 1, 2017, the warehouse in Barcelona was integrated into the system landscape used by windeln.de SE.

The Group´s return rate is very low compared to other online retailers. In 2017, the average return rate was approx. 3.1%. This is mainly due to the baby and children product category. Products purchased for daily use, such as diapers and food, are very unlikely to be returned. The decision to purchase durables such as strollers and children´s car seats is generally made before the order is placed. Finally, the good consulting service in the shop means that products are rarely sent back.

Four customer service centers in Europe and one in Asia for the Chinese market are operated both internally and in collaboration with external service providers specialized in customer service. The multilingual customer service team, which is aligned towards the international customer base, provides customers with expert advice and a free point of contact for matters relating to orders in the webshops. Service quality, training as well as uniformly efficient processes and tools are controlled by a central Group team. Further significant efficiency improvements of the logistics chain to China were achieved by the inclusion of the Dutch post (PostNL) as a transport service provider. Post NL has a close working relationship with national and international postal services and, therefore, has a large and reliable network for the delivery of packages in Europe and China.

In order to offer customers the best possible shopping experience, the portfolio of payment options is gradually expanded for local markets. In addition to various local payment methods, such as Alipay in China or cash on delivery in Italy and Portugal, the popular payment methods China UnionPay and Postfinance e-finance for Switzerland were introduced in 2017. A constant development of the payment methods is an elementary component concerning repurchase rates and customer satisfaction.

By assigning new service providers, windeln.de could improve credit checks and credit card processing.

By adding furniture to the product mix of the Group, windeln.de SE introduced a new delivery method called “Dropshipping” in 2017 and entered into a partnership with a logistics provider. This logistics provider performs delivery to the desired room of the customer in Germany and Austria and thereby provides a customer oriented and competitive added value. Bebitus has already offered this delivery method since 2016. Dropshipping offers the possibility to expand the assortment without an increase of inventories. All products are ordered from the supplier only when a specific customer order exists. Subsequently, products are directly delivered from the supplier to the customer.

Supply chain management uses internally developed, statistical models to determine the optimal order quantity. These are calculated on the basis of expected sales, out-of-stock probabilities, marketing plans, and replacement times. The precise algorithms reduce the amount of stock to be stored and thus inventories, without impact on stock reliability.

1.1.4. Technology infrastructure

As a company focused on technology, ongoing innovation through investments in technology is a core part of windeln.de's business. windeln.de has a highly scalable, internally developed technology platform, which serves as a basis for an easy and inspiring shopping experience for customers.

The almost exclusively internal IT architecture is centralized for almost all business units and thus creates efficient synergies. Tailored technologies are enhanced, where necessary, by carefully selected solutions from third-party providers.

windeln.de maintains advanced systems to capture large data volumes on customers' browsing and shopping behavior. Analyzing this data makes it possible to satisfy customer requirements on an even better scale, e.g. by making personalized suggestions based on the age of the child. At the same time, compliance with European data protection standards is a matter of fact.

The rapid development of mobile commerce offers great potential for the Group. In the financial year 2017, around 71% of website traffic was generated from mobile devices. Mobile orders make up 47% of total orders. The Group is constantly working on improving its mobile offering on websites and apps.

Over the last two years, all online shops except Feedo (i.e. www.windeln.de, www.nakiki.de, www.windeln.ch, www.pannolini.it, www.toys.ch, www.kindertraum.ch, www.windeln.com.cn, www.bebitus.com, www.bebitus.pt, www.bebitus.fr) were migrated to the Group-wide, new shop system. The uniform technological basis with flexible shop and content management system makes it even better to respond to customer requests, to realize synergies and to optimize IT resources. On small devices such as mobile phones, shopping in the shops is greatly facilitated by an optimized orientation and user-friendly presentation. Advantages concerning IT are that features can be implemented much faster and scaled across the store due to the modern, micro-services-based IT architecture as well as due to standardized and optimized processes.

1.1.5. Marketing and customer acquisition

New customers are attracted through various paid and unpaid marketing channels, including search engine marketing (SEA and SEO), content marketing (online content portals), product data marketing on price comparison sites, affiliate marketing, retargeting, flyer campaigns, recommendation marketing and social media. The focus is on online marketing in order to reach customers where they have direct access to a windeln.de webshop.

The business model of windeln.de relies on the one-time acquisition of customers who are inspired by the wide range of products in combination with the segment specific customer relationship management campaigns to shop at windeln.de's website several times over a prolonged period of time and thus become regular customers of the Group.

Generally, the most effective form of marketing is to continuously improve the customer experience, as satisfied customers not only make repeat purchases at windeln.de, but also recommend the websites to friends and family members. These "word-of-mouth"-recommendations are supported by a loyalty and recommendation program. As a result, the share of repeat customers was 76,2% in 2017.

1.1.6. Employees

Our employees form the basis of the success of the Group. The dynamic and growing business environment in which windeln.de operates, calls for engaged, qualified and motivated employees. On December 31, 2017, the Group had 423 employees (393 full-time equivalents). The decline by 86 employees is attributable to the outsourcing of the customer service of windeln.de SE at the beginning of 2017, to the closure of the Swiss site as well as to a general restrictive personnel policy and the automation of processes.

Since 2017, Human resources (HR) have been managed for almost all locations (except for Feedo Group) from Munich. By introducing a digital personnel file, all HR processes have been optimized and digitized. The HR software offers both the HR department and the employees a simplified work process and contributes to greater transparency.

Standardized tools such as the application management system or the digital personnel file enable a manageable process and generate more efficiency for HR managers.

Since May 2017, employees have been provided with an Equal Opportunity Officer as contact person and advisor in matters of gender equality. Also since May 2017, the Works Council of windeln.de SE has been established. It consists of international employees and serves as a Group-wide committee for the representation of interests of the employees.

Different cultures, ideas, perspectives, strengths and experiences lead to best results for windeln.de. The Group is proud of the diversity of its employees: at the end of 2017, windeln.de Group-wide employed people from 37 countries. Women make up 61% of the Group´s workforce. The average age of the workforce 2017 was 32 years, whereby the age of the management board clearly lies above this number.

windeln.de lives an open, trustworthy and transparent corporate and communication culture, which supports the team spirit and commitment. Team meetings in the departments as well as across-departments events are held on a regular basis. Short ways, quick decisions and flat hierarchies are very important elements. The management board also invites employees to critically review processes and ways of thinking. Regular information events by the management board keep employees updated about projects and outlooks. The open communication is brought to life with a clear feedback culture and an “open door policy”. In addition, employee surveys on the workplace situation take place.

One of the most important visions of the Group is to support the development of employees´ skills. windeln.de has therefore decided to support its employees with its individual career goals and to offer training accordingly. This includes the development of young professionals into leading positions through professional trainings. Through cooperations with universities, the program “employees-promote-employees”, a revised, modern career website and numerous other initiatives, the Group addresses new, potential candidates. A standardized semi-annual review process ensures that there is close exchange and feedback between supervisors and employees.

1.2. Group structure

1.2.1. Legal form

The windeln.de SE is a European stock corporation (Societas Europaea; short SE).

1.2.2. Management and control

windeln.de Group is managed by the parent company, windeln.de SE, based in Munich, Germany. All management functions are bundled here. As a European stock corporation, windeln.de SE chose a dual management and control structure. The management board is responsible for the Group’s strategy and its management, the supervisory board advises the management board and monitors its management activities. Apart from windeln.de SE, the Group is currently made up of eight fully consolidated subsidiaries, some of which bear the responsibility for the local business activities (the Feedo Group) and some of which operate as service entities. All subsidiaries are directly or indirectly controlled by windeln.de SE and are 100% owned by the Group.

1.2.3. Group segments

Until the second quarter of 2017, the windeln.de Group had to report on the reportable business segments “German Shop” and “International Shops”. Due to structural changes, the ongoing technical integration of the webshops and due to changes in the disciplinary organization of corporate employees in central departments, it was necessary to adjust the Group’s management. As a result, windeln.de has been a one-segment Group since the second half of 2017. Please refer to notes section 4 for further information.

1.3. Group strategy and competitive position

1.3.1. Strategy

The Group set itself the objective of becoming the leading online retailer for the needs of families with babies and children in Europe and China. Against this background, the following strategies are pursued:

- Profitable growth in the existing markets of windeln.de in Europe and China by expanding the customer base, enhancing the product offering and increasing the order volume per customer.
- Improvement of operational processes in order to improve the shopping experience of our customers, to create synergies and efficiencies as well as to increase sustainable profitability.

Please refer to section 3. Outlook for further information on the strategy in 2018.

1.3.2. Competitive position

Competitors of windeln.de are other online retailers that focus exclusively on the sale of products for babies, toddlers and children (“purely online retailers for baby and children products”) as well as general online retailers with a broader range of products. Certain offline retailers, e.g. traditional providers of baby products, drugstores and supermarkets, are also competitors of windeln.de.

windeln.de stands out from the offline and online competition thanks to its numerous competitive advantages. As a pure online retailer that specializes on the needs of families, windeln.de is a leader in Europe and built up a strong and growing business selling baby food products to customers on the Chinese market.

This success is based on the following core drivers:

- Loyal customer base, which is primarily made up of mothers
- Focus on baby and children products with the associated specialist knowledge
- Broad and inspired selection of products
- Scalable IT and fulfilment infrastructure focused on future growth
- Economies of scale and efficiency advantages on account of size and market share
- High level of brand awareness as provider of “German quality products” on the Chinese market
- Strategically close and long-term relationships with manufacturers and suppliers

1.4. Management system

The most important performance indicators for the Group´s management are revenues, operating contribution as percentage of revenues and adjusted earnings before interest and taxes as percentage of revenues (adjusted EBIT as percentage of revenues).

For the purposes of managing the Group, earnings before interest and taxes (EBIT) are adjusted for expenses and income in connection with share-based compensation, the expansion of the Group and reorganization as well as expenses in connection with acquired intangible assets. In 2016, also expenses for internal restructuring measures and the ERP system change were adjusted.

The management board manages at Group level.

In addition to the listed financial key figures, a number of non-financial performance indicators, which take influence on the order volume, are also used to steer the group:

- Number of active customers

Each customer that has submitted an order within the last year (based on the reporting date) is considered to be active.

- Average numbers of orders per active customer

The orders submitted by active customers within the last 12 months are included in the calculation of the average number of orders.

- Average order value

The number of orders as well as the average basket size have a direct influence on the Group's revenue. This figure is also a key indicator to measure the customer´s trust in the Group

- Regular customer ratio

The regular customer ratio is the relationship of orders made by regular customers compared to the total number of customers. This measure also reveals the loyalty of our customers.

The non-financial performance indicators are managed by the management board at shop level. The management system used in the Group is – compared to the previous year – unchanged.

The revenue contribution per customer over time (customer lifetime revenue), the contribution margin per customer in relation to customer acquisition costs (customer lifetime value) and the liquidity situation of the Group are also considered to be key performance indicators.

1.5. Research and development

windeln.de internally develops central components of the e-commerce platforms used in the Group. This ensures that the software is aligned with the operating processes and the needs of the departments in the best possible way. In particular, the shop platforms of windeln.de SE and the Feedo Group are operated through an internally generated software. Thereby, windeln.de uses modern, open source based standard software and libraries.

The most important technical development in 2017 was the completion of the introduction of a uniform shop architecture (adaptive/responsive mobile/desktop solution), the integration of the shops and the renewal of the business intelligence system landscape. The windeln.de shop was relaunched and all Bebitus shops (bebitus.com, bebitus.fr, bebitus.pt) were integrated into the central e-commerce landscape. In addition, the introduction of standard software and development methods replaced the existing data warehouse with a highly available data platform and replaced the in-house developments in this area with a data transformation tool.

To improve the shopping experience for the customer, data delivery from China (excl. Hongkong) has been facilitated by a local infrastructure provider. The MyAccount feature in the user's account provides easy access to orders and invoices, thereby reducing the environmental footprint. In the Bebitus shops it is also possible to commission returns. This contributes to increasing efficiency and simplifying the return process.

In addition, the introduction of the uniform shop and MicroService architecture has significantly reduced the number of hosting servers in Europe. The introduction of a payment microservice enabled the connection of new payment methods and the improvement of fraud prevention.

The software development constitutes a structured and personnel-intensive part of the implementation of customer features in the shop, improvements to systems, development of components as well as the expansion and customization of the functionalities of the ERP system. The development teams are divided into sub-areas of the customer purchase process and work in agile, organized teams: Product, content, checkout, and service teams. Back office tools (product information system, customer care, SEA) are being developed at the location Sibiu in Romania. A quality assurance (QA) team in Sibiu supports the development teams and performs manual and automated test runs. The ERP-development takes place in a further specialized team. The automation of IT operations and the operation of infrastructure services are performed by the IT team. Thereby, the automation of software development processes and the server management could be fully achieved.

The Group does not perform any research activities.

2. REPORT ON ECONOMIC POSITION

2.1. Development of economy as a whole

In Germany, retail sales amounted to approximately EUR 512bn in 2017[1], representing growth of 4.1% compared to 2016. In 2017, retail sales increased for the eighth time in a row. Since 2010, sales have increased by around 20%, which shows that retailers are sustainably benefiting from the consumer-friendly environment of recent years. For 2018, retail sales are expected to grow by around 2.0% to EUR 523 billion. Overall, the German economy is therefore very positive.[2]

The course of the individual sectors, however, is very different. One of the above-average successful sectors is e-commerce. In 2017, e-commerce recorded total revenues of EUR 58.5 billion (growth of 10% compared to 2016). In the meantime, every tenth euro in the German retail trade is redeemed via e-commerce. In 2018, a growth of 9.3% to EUR 63.9 billion is expected. Especially the personal needs and the leisure equipment are in the focus of the consumers.[3]

Gross domestic product (GDP) increased by 2.2% in 2017 (previous year: 1.9%). Household expenditure increased by 2.0% and therefore makes a substantial contribution to growth.[4]

There was also an increase in sales across Europe. The average retail trade volume for 2017 increased by 2.6% compared to 2016 both in the euro area and in the EU-28.[5] Internet retail grew by about 15% compared to 2016.[6]

In 2017, retail sales in China grew by 10.2% compared to previous year. In online retail, a volume of EUR 543 billion was recorded in 2017. The Group expects further strong growth and annual growth rates of approximately 12% until 2022.[7]

Due to the continuing positive development of e-commerce, the Group continues to see growing market opportunities for the business model of selling products for babies and toddlers.

The exit of the United Kingdom from the European Union ("Brexit") has no impact on the Group. windeln.de SE and windeln.de's subsidiaries delivered (and obtained respectively) products only to an immaterial extent. For the future, no business operations are planned in the United Kingdom.

1 HDE Handelsverband Deutschland; https://einzelhandel.de/presse/aktuellemeldungen/10965-online-handel-bleibt-wachstumstreiber-hde-prog-nose-fuer-2018-umsatzplus-von-zwei-prozent; retrieved on 12.02.2018
2 HDE Handelsverband Deutschland; https://einzelhandel.de/presse/aktuellemeldungen/10965-online-handel-bleibt-wachstumstreiber-hde-prog nose-fuer-2018-umsatzplus-von-zwei-prozent; retrieved on 12.02.2018
3 EHI Handelsdaten; https://www.handelsdaten.de/branchen/e-commerce-und-versandhandel; retrieved on 12.02.2018
4 HDE Handelsverband Deutschland; https://einzelhandel.de/index.php?option=com_attachments&task=download&id=9331; abgerufen retrieved on 12.02.2018
5 Destatis Statistisches Bundesamt; https://www.destatis.de/Europa/DE/Service/Presse/Pressemitteilungen/UnternehmenProduktion/20180205_Einzelhandel.html; retrieved on 12.02.2018
6 Webdata Solutions; http://webdata-solutions.com/blog/2017/09/13/e-commerce-in-europa-entwicklung-und-kundenvorlieben/; retrieved on 12.02.2018
7 Statista; https://de.statista.com/outlook/243/117/ecommerce/china#; retrieved on 12.02.2018

In the opinion of the executive board, a separation of the autonomous region of Catalonia from Spain is improbable. But, if a separation of the region occurs, a restructuring of the Southwestern business of windeln.de would be necessary; especially a move of the local warehouse.

2.2. Sector specific environment – market for products for babies, toddlers and children

2.2.1. German and European e-commerce market

The growth of the e-commerce market for consumables for babies and other baby and toddler products is decisive for the success of the Group. E-commerce in Germany increased by 10.9% in 2017 to around EUR 59 billion. A strong growth of 9.3% in 2018 is expected to bring an increase to EUR 64 billion. According to internal estimates, e-commerce in the segment baby and toddler products amounted to EUR 1.9 billion in Germany in 2017 and is expected to grow by 3.2% per year until 2022. The online share in the segment baby and toddler products is expected to increase from currently approximately 9.7% to an estimated 10.9% in 2022.[8] The market is characterized by low cyclicity as well as a high degree of predictable demand. It is supported by a stable to slightly increasing birth rate. In 2016, approximately 792,000 children were born in Germany. As reported by the Federal Statistical Office (Statistisches Bundesamt), this was an increase of 7.4% compared to 2015 (738,000). In 2016, the birth rate in Germany reached 1.5 children per woman. The positive development that has been observed since 2012 thus continued. From the Group's point of view, therefore, the medium-term growth of the whole market for baby and toddler products is very probable.

According to Group estimates, sales in the segment baby and toddler products in Europe amounted to around EUR 11.9 billion in 2017 and will continue to grow at around 6.2% per year until 2022. The penetration rate is currently around 11.5% and is expected to reach 13.6% in 2022. The Group expects growth of the e-commerce share and the online infrastructure as well as a continued increase of the use of online content in all parts of Europe.[9]

The online channel generally offers a good possibility to sell consumables for babies, as these products are similar to other product categories that have already been sold online for a while, such as consumer electronics, consumer equipment and fashion items (with clothes and shoes). Products for babies, toddlers and children are typically branded articles, durable and bought frequently. This offers a significant opportunity for the growth of the online share. Demand can be predicted to a great extent and there is a low need for individualization. The possibility of being able to shop at any time and any place with simple home delivery also offers a considerably more comfortable shopping experience compared to traditional offline shopping.

2.2.2. Mobile devices

The constant rise of the use of smartphones and tablets is one of the main reasons for the increasing penetration of online facilities in Europe. Smartphones and tablets offer customers a comfortable option to shop at anytime and anywhere. This is a huge advantage in the sale of products for babies and toddlers. Furthermore, online marketing via mobile devices (e.g. push notifications) offer a new opportunity to increase daily interaction with customers. The Group is constantly working to improve the mobile shopping experience for the customer and, among other things, introduced a new app in 2017. The share of mobile page views at windeln.de was 70.6% in 2017 (the share of mobile orders was 47%).

A representative survey by rc research & consulting GmbH shows that windeln.de is on the right track. Almost half of parents (46%) use mobile devices such as smartphones for their shopping; mainly because of time savings compared to shopping on personal computers (44%). Thereby, the smartphone is not only used while traveling (25%), but also at home (85%).[10]

8 Statista; https://de.statista.com/outlook/257/137/spielzeug-baby/deutschland; retrieved on 12.02.2018
9 Statista; https://de.statista.com/outlook/257/102/spielzeug-baby/europa#; retrieved on 12.02.2018
10 Etailment, http://etailment.de/news/stories/eltern-kinder-studie-21088?utm_source=%2Fmeta%2Fnewsletter%2Flongread&utm_medium=newsletter&utm_campaign=nl1270&utm_term=19d68f6ca8cc5e2a52ade5516d359e52; retrieved on 12.02.2018

2.2.3. Cross-border e-commerce market in China

windeln.de is also active in the Chinese cross-border e-commerce market. Chinese customers make purchases directly from foreign online dealers. In 2016, 15% of the Chinese population already bought online from other countries. eMarketer predicts that this number will increase up to 25% in 2020. The overall volume of the Chinese cross-border e-commerce in 2017 is expected to amount to around USD 100bn, which is a growth of around 28% to the previous year.[11] While the population´s disposable income is constantly on the rise, the demand for high-quality foreign products, especially from Germany, increases. The main product categories are cosmetics, body care as well as products for mother and child.[12]

The growth of the Chinese cross-border e-commerce market is stimulated by the following key drivers:

- With more than 17.2 million births in 2017 and an increasing purchasing power, the Chinese market for baby and toddler products is geared towards growth.[13]
- The market is also strengthened by the fact that more and more babies are fed with milk substitutes instead of breast milk. In 2016, around 800 thousand tons of milk powder were imported in China. Until 2025, the imports are supposed to increase up to 1.2 million tons.[14] The higher demand for foreign quality products is also boosted by past scandals with local milk formula products. For example, Aptamil brand milk powder was named one of the top five products sold on Tmall Global on November 11, 2017.[15]
- In addition, China's average purchasing power is growing at a rate of around 9% per capita from 2017 to 2022.[16] According to McKinsey, the middle class is expected to reach 630 million by 2022, with a particularly high demand for authentic, high-quality foreign products.[17] For these reasons, there will be a strong increase of the market for baby products in the coming years.

2.3. Geschäftsverlauf

Update on STAR program[18]

In 2017, windeln.de successfully implemented further measures of the STAR program. The focus was mainly on the outsourcing of customer service, on the closure of the Swiss office and on the integration of Bebitus.

The outsourcing of customer service was successfully concluded in 2017. Since end of 2016, parts of customer requests of Germany, Switzerland and Austria (GSA) have been already handled by an external service provider. In Q2 2017, this service provider completely took over customer service responsibilities for the GSA region. The response of the customers to this change was positive. Due to the outsourcing, selling and distribution expenses will further decrease. In 2017, the savings have not yet been visible as two customer service teams were parallelly working during the transition phase until end of April 2017.

In 2017, the office in Uster, Switzerland, as well as the there located showroom were closed. The tasks of the local team were transferred to central departments in Munich or outsourced to a third party service provider. Thereby, synergies are realized and marketing, customer service and administrative expenses will be reduced in the future. The Swiss warehouse operated in-house by the Group was closed. The warehouse operations were partially outsourced to a third party service provider. However, the majority of orders from Switzerland are now fulfilled from the central warehouse in Großbeeren.

As of October 1, 2017, the webshops of Bebitus were migrated to the new shop platform. As a result, windeln.de SE continues the business operations of Bebitus Retail S.L.U. With the migration to the new shop platform and the transfer of the business

11 eMarketer; https://www.emarketer.com/Article/Cross-Border-Ecommerce-Spending-China-Top-100-Billion-Threshold-2017/1016697; retrieved on 12.02.2018
12 China Daily; http://www.chinadaily.com.cn/business/2017-10/30/content_33890583.htm; retrieved on 12.02.2018
13 German.China.org; http://german.china.org.cn/txt/2018-01/26/content_50313680.htm; retrieved on 12.02.2018
14 Agrar Heute; https://www.agrarheute.com/news/china-2017-noch-mehr-milch-importieren, retrieved on 6.2.2017
15 Technode; https://technode.com/2017/11/11/alibaba-records-rmb-168-2-billion-in-singles-day-sales/; retrieved on 12.02.2018
16 International Monetary Fund, World Economic Outlook Database, October 2017; retrieved on 12.02.2018
17 China Daily; http://www.chinadaily.com.cn/business/tech/2017-02/16/content_28218209.htm; retrieved on 12.02.2018
18 The STAR program (determined and announced in 216) is a set of measures with the purpose of focusing business operations, optimizing processes and improvement of profitability. Please refer to the following website for further information: https://corporate.windeln.de/press-release/windeln-de-initi ates-set-of-measures-to-focus-its-business-activities-improve-processes-and-increase-profitability/

operations, the integration of Bebitus is completed. In the future, Bebitus Retail S.L.U. acts as a service provider for the southwest European market. Thereby, synergies are realized and future marketing and administration expenses will be reduced in the future.

In 2017, windeln.de Group created several central departments. This includes, among others, logistics, assortment, operative purchasing, marketing, customer service and administrative functions. So far, these departments existed in operating subsidiaries and in some service entities. Through the creation of central departments, resources are pooled and redundancies are avoided. Thereby, windeln.de as a Group is able to act more efficiently.

Amendment No. 2 to the purchase agreement of the Feedo Group

On April 13, 2017, one founder of the Feedo Group left the company. Thereby, a so called leaver event occurred. Besides the processing of the leaver event, Amendment No. 2 simplifies the payment of the contingent consideration of the years 2015 and 2016. windeln.de paid the contingent consideration of the years 2015 and 2016 in 2017. Overall, 312,438 shares of windeln.de SE and EUR 184k were paid. Thus, the claims of the sellers for these years are satisfied. As a result of the agreement, the Group recognized an income of EUR 89k, shown in personnel expenses within administrative expenses, and expenses of EUR 26k, shown in other operating expenses. Please refer to section 6 of the Notes for further information.

Conclusion of a settlement agreement on the Bebitus purchase

Since Q4 2016, windeln.de and the two founders of Bebitus were in discussions about the existence of guarantee claims from the share purchase agreement and about potential reductions of subsequent purchase prices. On July 19, 2017, windeln.de and the founders concluded a settlement agreement. As a result, EUR 1,700k were paid and 1,906,695 shares were issued to the founders of Bebitus. Thus, the claims of the founders for 2015 and 2016 are satisfied. Overall, the terms of the agreement are favorable for the Group as the parties agreed upon a clear discount compared to the original payment. In addition, the integration of Bebitus could be realized on October 1, 2017. As a result of the agreement, the Group recognized an income of EUR 616k in the personnel expenses within administrative expenses and an income of EUR 1,129 in the financial result. Please refer to section 6 of the Notes for further information.

Domains

The cash-generating unit (CGU) Switzerland used the domain kindertraum.ch and toys.ch. The management decided to focus the Swiss business on one webshop. Visitors of the webshops kindertraum.ch and toys.ch will therefore be redirected to windeln.ch going forward. The number of offered products is not affected by this decision. By this measure, the Group wants to reduce complexity and administration expenses as well as use marketing expenses more efficiently. The management decided to continue the webshop windeln.ch in order to operate under a common name in German speaking countries. Therefore, the book values of the domains kindertraum.ch and toys.ch respectively were impaired by EUR 1,490k and EUR 270k respectively to EUR 0. The Swiss customer bases of these domains were also impaired by EUR 56k.

In the course of the annual impairment test, the domains bebitus.fr, feedo.cz, feedo.pl and feedo.sk were partially impaired in order to meet the needs of focussing on profitable growth and the resulting lower growth expectations. The domain bebitus.fr was impaired by EUR 2,731k to EUR 1,890k, the domain feedo.cz by EUR 1,612k to EUR 6,043k, the domain feedo.pl by EUR 2,817k to EUR 1,414k and the domain feedo.sk by EUR 1,318k to EUR 1,163k.

The impairments of the domains and the customer bases are not included in adjusted EBIT. Please refer to section b) of 2.4.1. Results of operations for further information.

The goodwills of Bebitus and the Swiss business are recoverable and not impaired.

Borrowing Base

In 2017, the existing credit line agreements with Deutsche Bank AG and Commerzbank AG (EUR 10 Mio. in total) have been extend until March 31, 2018. The credit line agreement with DZ BANK AG (EUR 4 Mio.) was ended on September 30, 2017.

As of December 31, 2017, both existing credit lines were drawn in form of short term money market loans amounting to EUR 3,500k.

Annual General Meeting of windeln.de SE

On June 2, 2017, the first Annual General Meeting (AGM) of windeln.de SE took place since the transition into a European company (SE). 75.56% of the voting share capital attended to the AGM. The AGM elected Tomasz Czechowicz as new member of the supervisory board. The supervisory board therefore consists of six members again. The AGM approved all agenda items with majority of the votes.

Capital increases in 2017

In connection with the subsequent purchase price payments for Feedo Sp. z o.o. and Bebitus Retail S.L.U., windeln.de SE carried out two capital increases in Q3 2017.

In August 2017, the issued capital was increased by 312,438 shares or by EUR 312k. The shares were fully transferred to some of the sellers of the Feedo Group as compensation for subsequent purchase prices for the years 2015 and 2016. As of the date of issuance, the shares had a value of EUR 1,034k.

In September 2017, the issued capital was increased by 1,842,012 shares or by EUR 1,842k. The shares were fully transferred to some of the sellers of Bebitus as compensation for subsequent purchase prices for the years 2015 and 2016. As of the date of issuance, the shares had a value of EUR 5,913k. In addition, one of the sellers received 64,683 treasury shares held by windeln.de SE, with a value of EUR 220k as of the date of transfer.

Management board

On September 28, 2017, the supervisory board of windeln.de appointed Matthias Peuckert as new chairman of the management board of windeln.de SE. Matthias Peuckert will initially be appointed for three years and join the company in 2018. He has many years of experience in e-commerce. Since 2003, he has held various positions with Amazon and has been responsible as one of the senior managers for the areas of Core Consumables Germany (including baby articles), Retail OPS & Initiatives Germany, Pantry EU as well as Pricing and Projects in Germany.

The two founders and co-CEOs Konstantin Urban and Alexander Brand, whose contracts will end as scheduled on March 31, 2018, will be stepping down from the Management Board of windeln.de SE to allow for an orderly transition. This is being done under the best of terms between all parties involved. The contract of Nikolaus Weinberger, CFO and a member of the Management Board, which also expires on March 31, 2018, has been extended until March 31, 2021. The contract of Jürgen Vedie, COO and a member of the Management Board, has a term until June 30, 2019.

New shop system for the online shops

Following the successful migration of the shops for Italy (pannolini.it), Switzerland (windeln.ch, kindertraum.ch, toys.ch), China (windeln.com.cn) and nakiki.de last year, the shops windeln.de, bebitus.com, bebitus.pt and bebitus.fr have been successfully migrated to the new shop platform as well. The fact that these shops are running on the same technical platform will help windeln.de to improve quality for customers, further streamline processes and achieve technical and process-oriented synergies.

The new shop system improves the shopping experience for the customer due to faster webpage loading times on all technical devices as well as new features for payment and checkout. Shopping on windeln.de is much easier now due to an optimized design and user-friendly presentation on small devices such as mobile phones.

New features can be implemented much faster and can be scaled across shops due to the modern IT architecture based on micro services. In terms of marketing, the migration offers advantages by developing campaigns solely for one particular market which can then be quickly rolled out to other markets and on all devices. Furthermore, cross selling between the shops windeln.de and nakiki.de is enhanced by using a joint shopping cart.

Foundation of windeln Management Consulting (Shanghai) Co., Ltd.

Effective February 21, 2017, the subsidiary company windeln Management Consulting (Shanghai) Co., Ltd. with registered office in Shanghai, China, was founded. The subsidiary operates as a service company for marketing activities and for the development of further distribution channels in the Chinese market.

Additional transport service provider for deliveries to China
In 2017, windeln.de engaged an additional transport service provider for deliveries to China. More favorable conditions offered by the new provider result in cost savings in selling and distribution expenses for windeln.de. As a result, selling and distribution expenses could be noticeably reduced in 2017.

Tmall Global award
On April 18, 2017, windeln.de received an award as most popular international brand at a Tmall Global ceremony at Alibaba Group's headquarter in Hangzhou, China. The award underlines windeln.de's strong performance since opening of a flagship store on Alibaba's e-marketplace Tmall Global in July 2016.

2.4. Net assets, financial position and results of operations of the windeln.de Group

2.4.1. Results of operations

a) Consolidated income statement

kEUR	2017	2016	Change absolute in kEUR	Change relative in %
Continuing operations				
Revenues	211,899	194,756	17,143	9%
Cost of sales	-159,564	-142,984	-16,580	12%
Gross profit	**52,335**	**51,772**	**563**	**1%**
Selling and distribution expenses	-75,021	-68,413	-6,608	10%
Administrative expenses	-21,421	-18,804	-2,617	14%
Other operating income	1,306	971	335	35%
Other operating expenses	-782	-839	57	-7%
Earnings before interest and taxes (EBIT)	**-43,583**	**-35,313**	**-8,270**	**23%**
Financial income	1,673	1,043	630	60%
Financial expenses	-57	-179	122	-68%
Financial result	**1,616**	**864**	**752**	**87%**
Earnings before tax (EBT)	**-41,967**	**-34,449**	**-7,518**	**22%**
Income taxes	4,053	-16	4,069	<-100%
Profit or loss from continuing operations	**-37,914**	**-34,465**	**-3,449**	**10%**
Profit or loss from discontinued operations	-	**-7,508**	**7,508**	**-100%**
PROFIT OR LOSS FOR THE PERIOD	**-37,914**	**-41,973**	**4,059**	**-10%**

In 2017, the Group generated revenues of EUR 211,899k, an increase of 9% compared to 2016 (EUR 194,756k).

The Group increased revenues mainly in China (+18%) and Eastern Europe (+27%), driven by the Tmall shop in China, launched in July 2016, and the continuing development of Eastern European markets. Despite a revenue shortfall in Q4 2017 caused by integration effects, Southwestern Europe revenues also increased by 22% in 2017. Only region GSA shows declining revenues (minus 19%), caused by an increased focus on high-margin non-consumable products and respective marketing campaigns. Low-margin products are less promoted. Overall, this results in lower revenues of the German Shop.

The margin (gross profit as percentage of revenues) decreased in 2017 by 1.8pp to 24.8%, a result of the increasing revenue share of the new shops launched or acquired in 2015. Those could improve their margins, they are however still below the margin of the established businesses.

Selling and distribution expenses increased by EUR 6,608k or 10% to EUR 75,021k in the reporting period. This development is mainly attributable to an increase of depreciation and amortization by EUR 10,558k. In 2017, the domains kindertraum.ch, toys.ch, bebitus.fr, feedo.cz, feedo.pl and feedo.sk as well as the Swiss customer base were impaired by EUR 10,294k. Personnel expenses within selling and distribution expenses also increased by 6%. With a decrease by 10%, logistics expenses however show a positive development as a result of cost reduction measures implemented in the past. Those measures comprise in detail the change to an additional transport service supplier for deliveries to China and savings from the reduction of split shippings to customers in Switzerland and Italy. Further costs were saved by the closure of the Swiss warehouse and the partial transfer of the local storage activities to an external service provider.

Further cost savings of 18% were achieved for marketing expenses. Online marketing activities focused in particular on high-margin non-consumable products and less on consumable products. This results in a decrease in the transaction volume in online marketing and also in lower fees per transaction.

Administrative expenses increased by 14% to EUR 21,421k. This development is mainly attributable to increasing personnel expenses in relation to the acquisition of the Feedo Group and Bebitus. Portions of the economic purchase price of these subsidiaries are considered as share-based payments. Other personnel expenses also increased by 4%. Legal and consulting costs decreased by 24% compared to prior period.

Other operating income increased by EUR 335k to EUR 1,306k in 2017, mainly caused by clearing of supplier positions (EUR 193k). Exchange rate gains increased by EUR 63k to EUR 890k. Other operating expenses decreased by EUR 57k to EUR 782k, caused by a decrease of exchange rate losses by EUR 85k to EUR 724k.

Earnings before interest and taxes (EBIT) changed from EUR -35,313k to EUR -43,583k in 2017. EBIT as a percentage of revenues changed from -18.1% to -20.6%. This can be explained by the impairment of domains in 2017.

The financial result significantly improved by EUR 752k to EUR 1,616k in 2017 (2016: EUR 864k). The prior year income mainly results from the remeasurement of contingent considerations (Earn Out) of EUR 866k. In 2017, a financial income of EUR 499k was recorded for this. Further EUR 1,129k were recorded as financial income for the derecognition of Earn Out liabilities.

Income taxes show a benefit of EUR 4,053k mainly caused by the release of deferred tax liabilities related to the impairment of domains and the transfer of the domains from Bebitus to windeln.de SE.

b) Financial and non-financial key performance indicators[19]

Financial key performance indicators

As described in section "Management system", the material financial performance indicators of the Group consist of revenues, operating contribution as percentage of revenues and adjusted EBIT as percentage of revenues.

The development of the revenues is described in the prior section.

The development of operating contribution as percentage of revenues is described in section 2.5 Other financial performance indicators.

For the purposes of managing the Group, earnings before interest and taxes (EBIT) are adjusted for expenses and income in connection with share-based compensation, the expansion of the Group and reorganization as well as expenses in connection with acquired intangible assets. In 2016, also expenses for internal restructuring measures and the ERP system change were adjusted as well.

			Change	
kEUR	2017	2016	absolute in kEUR	relative in %
Earnings before interest and taxes (EBIT)	-43,583	**-35,313**	**-8,270**	**23%**
adjusted for costs of acquisition, integration and expansion	121	633	-512	-81%
adjusted for share based compensation	8,128	5,597	2,531	45%
adjusted for costs of reorganization	94	984	-890	-90%
adjusted for impairment of intangible assets	10,294	-	10,294	
adjusted for costs of restructuring under corporate law	-	139	-139	-100%
adjusted for ERP system change	-	1,248	-1,248	-100%
Adjusted EBIT	**-24,946**	**-26,712**	**1,766**	**-7%**

Adjusted EBIT improved from EUR -26,712k in 2016 to EUR -24,946k in 2017, resulting from the savings in selling and distribution expenses (logistics and marketing). Adjusted EBIT as a percentage of revenues improved from -13.7% in 2016 to -11.8% in 2017.

In the annual report 2016, a moderate double-digit growth was forecasted for revenues. With a growth of 9%, the Group could not completely achieve this outlook. The reason for that is the reduction of marketing expenses which results in declining revenue growth in region GSA and a weak turnover of Bebitus Webshops in Q4 2017 caused by the integration. For the operating contribution as a percentage of revenues and the adjusted EBIT as a percentage of revenues, a moderate improvement was forecasted. The operating contribution as a percentage of revenues improved from 2.4% to 4.8% and the adjusted EBIT as a percentage of revenues improved from minus 13.7% to minus 11.8%. windeln.de met both outlooks.

Non-financial key performance indicators

The non-financial key performance indicators consist of number of active customers, average number of orders per active customer, average order value and regular customer ratio.

For this non-financial key performance indicators, a slight increase was forecasted in the annual report 2016. In 2017, the Group met the outlook for the average number of orders per active customers and for the average order value. The number of active customers however decreased from 1,065,089 in 2016 to 1,051,409 as of December 31, 2017, caused by decreased marketing expenses in region GSA. The average number of orders per active customer increased by 0.04 to 2.23. The average order value increased by EUR 0.04 to EUR 87.56 in 2017. The regular customer ratio (2017: 76.2%) is at a level slightly below prior year.

19 All disclosures in this section refer to continuing operations only.

c) Results of operations by region[19]

kEUR	2017	2016	Change absolute in kEUR	Change relative in %
Revenues	211,899	**194,756**	**17,143**	**9%**
Germany, Switzerland, Austria (GSA)	44,187	54,512	-10,325	-19%
China	105,628	89,383	16,245	18%
Other / Rest of Europe	62,084	50,861	11,223	22%

The development of revenues by region is described in section a) Consolidated income statement.

2.4.2. Financial position

kEUR	2017	2016	Change absolute in kEUR	Change relative in %
Loss for the period	-37,914	-41,973	4,059	-10%
Net cash flow from operating activities	-27,963	**-31,224**	**3,261**	**-10%**
Net cash flow from investing activities	-201	**-6,113**	**5,912**	**-97%**
Net cash flow from financing activities	3,339	**-39**	**3,378**	**<-100%**
Cash and cash equivalents at the beginning of the period	51,302	88,678	-37,376	-42%
Change in cash and cash equivalents	-24,825	-37,376	12,551	-34%
Changes in cash and cash equivalents due to exchange rates and changes in valuation	-12	0	-12	
Cash and cash equivalents at the end of the period	26,465	**51,302**	**-24,837**	**-48%**

The Group generated a negative cash flow from operating activities of EUR 27,963k in 2017, mainly caused by the loss for the period (EUR 37,914). The cash outflow is intensified by decreasing trade payables (EUR 3,058) and decreasing other liabilities (EUR 3,785k). These are offset by the impairment of intangible assets (EUR 11,738k), non-cash expenses in connection with share-based payments (EUR 7,794k) and the decrease of inventories by EUR 2,575k. These items are positively affecting the cash flow from operating activities.

The cash outflow from investing activities amounts to EUR 201k in 2017 (2016: EUR 6,113k). The cash outflow is mainly attributable to investments of EUR 1,119k in connection with development projects of the Group. In addition, subsequent payments of EUR 787k connected to the acquisitions of the Feedo Group and Bebitus are disclosed within the cash flow from investing activities. These are offset by a cash inflow of EUR 1,875k from the redemption of time deposits entered into in 2016.

After a cash outflow from financing activities of EUR 39k in 2016, the Group shows a cash inflow of EUR 3,339k in 2017 mainly attributable to borrowing a money market loan for financing of inventories.

The equity ratio decreased from 65.9% as of December 31, 2016, to 64.9% as of December 31, 2017. This is mainly attributable to the loss of the period in the amount of EUR 37,914k. In the reporting year, two capital increases were carried out, as well as a transfer of treasury shares to sellers of acquired subsidiaries to settle their claims from subsequent purchase prices. As a result, equity increased by EUR 3,295k. Due to equity-settled share-based payment awards reported in equity the share premium increased by EUR 7,768k.

The existing credit line agreement with Commerzbank AG (EUR 5 Mio.) was extended by six months in March 2017. In September 2017, a further prolongation by six months until March 31, 2018, followed. The maturity term of the secured revolving cash credit line agreement of EUR 5 Mio. with Deutsche Bank AG was first adjusted to September 30, 2017. The agreement was also extended by six months until March 31, 2018. Both agreements are secured by inventories and an assignment of receivables (blanket assignment). The agreements include standard covenants.

As of December 31, 2017, both existing credit lines were drawn in form of short term money market loans amounting to EUR 3,500k.

2.4.3. Net assets

			Change	
Assets	**Dec. 31,**	**Dec. 31,**	**absolute**	**relative**
kEUR	**2017**	**2016**	**in kEUR**	**in %**
NON-CURRENT ASSETS				
Intangible assets	21,002	31,169	-10,167	-33%
Fixed assets	625	865	-240	-28%
Other financial assets	866	3,146	-2,280	-72%
Other non-financial assets	206	330	-124	-38%
Deferred tax assets	15	10	5	50%
Total non-current assets	**22,714**	**35,520**	**-12,806**	**-36%**
CURRENT ASSETS				
Inventories	19,174	21,645	-2,471	-11%
Prepayments	332	374	-42	-11%
Trade receivables	2,298	2,508	-210	-8%
Income tax receivables	3	6	-3	-50%
Other financial assets	7,783	7,330	453	6%
Other non-financial assets	3,266	2,990	276	9%
Cash and cash equivalents	26,465	51,302	-24,837	-48%
Total current assets	**59,321**	**86,155**	**-26,834**	**-31%**
TOTAL ASSETS	**82,035**	**121,675**	**-39,640**	**-33%**

Equity and liabilities	Dec. 31,	Dec. 31,	Change absolute	Change relative
kEUR	2017	2016 R	in kEUR	in %
EQUITY				
Issued capital	28,472	26,318	2,154	8%
Share premium	168,486	159,993	8,493	5%
Treasury shares	-	-370	370	-100%
Accumulated loss	-143,387	-105,473	-37,914	36%
Cumulated other comprehensive income	-298	-233	-65	28%
Total equity	**53,273**	**80,235**	**-26,962**	**-34%**
NON-CURRENT LIABILITIES				
Defined benefit obligations and other accrued employee benefits	51	153	-102	-67%
Other provisions	5	86	-81	-94%
Financial liabilities	59	119	-60	-50%
Other financial liabilities	59	589	-530	-90%
Deferred tax liabilities	2,115	6,057	-3,942	-65%
Total non-current liabilities	**2,289**	**7,004**	**-4,715**	**-67%**
CURRENT LIABILITIES				
Other provisions	315	424	-109	-26%
Financial liabilities	3,575	64	3,511	>100%
Trade payables	14,779	17,517	-2,738	-16%
Deferred revenues	3,057	4,555	-1,498	-33%
Income tax payables	2	12	-10	-83%
Other financial liabilities	3,055	8,592	-5,537	-64%
Other non-financial liabilities	1,690	3,272	-1,582	-48%
Total current liabilities	**26,473**	**34,436**	**-7,963**	**-23%**
TOTAL EQUITY AND LIABILITIES	**82,035**	**121,675**	**-39,640**	**-33%**

Non-current assets amount to EUR 22,714k as of December 31, 2017 (December 31, 2016: EUR 35,520k). The decrease is mainly attributable to the impairment of the domains kindertraum.ch, toys.ch, bebitus.fr, feedo.cz, feedo.pl and feedo.sk and the Swiss customer base by EUR 10,294k in total and a reclassification of time deposits (EUR 2,500k), entered into in 2016, from other non-current financial assets to other current financial assets.

In 2017, current assets decreased by 31% to EUR 59,321k (December 31, 2016: EUR 86,155k). This development mainly results from reduced cash and cash equivalents of EUR 24,837k and a decrease of inventories by EUR 2,471k. The reduction of cash and cash equivalents is mostly caused by the loss for the period 2017. Inventories decrease as a result from ongoing optimization of working capital. Non-financial assets however rose by EUR 276k due to increased VAT receivables compared to December 31, 2016. Other financial assets increased by EUR 453k to EUR 7,783k. Time deposits recognized within other current financial assets, were repaid in the amount of EUR 1,875k. At the same time, previously non-current time deposits of EUR 2,500k are now recognized as current time deposits as they become due in 2018. Furthermore, receivables from advertising subsidies increased by EUR 1,144k. Current claim assets from seller guarantees decreased by EUR 1,489k in 2017, caused by offsetting against Earn Out liabilities paid in 2017. Please refer to section 6 of the notes for further information.

Compared to December 31, 2016, non-current liabilities decreased by EUR 4,715k to EUR 2,289k as of December 31, 2017. Significant changes arose from the release of deferred tax liabilities (EUR 3,942k) mainly resulting from the impairment of domains and the transfer of domains from Bebitus to windeln.de SE. The revaluation of liabilities from contingent purchase prices (Earn Outs) for the Feedo Group caused further declines. These liabilities decreased from EUR 499k as of December 31, 2016, to EUR 0 as of December 31, 2017. Defined benefit obligations and other accrued employee benefits decreased by EUR 102k mainly due to the closure of the Swiss office.

Current liabilities declined by EUR 7,963k to EUR 26,473k as of December 31, 2017. The change mainly results from a decrease of financial liabilities by EUR 5,537k, trade payables by EUR 2,738k, deferred revenues by EUR 1,498k and of other non-financial liabilities by EUR 1,582k.

The decrease of other financial liabilities mainly results from amendment No. 2 to the purchase agreement for the Feedo Group and the settlement agreement with the founders of Bebitus. As a result of these agreements, other financial liabilities decreased by EUR 5,210k. Thereof, EUR 1,489k were offset against a claim asset and EUR 1,129k were derecognized through financial result in profit and loss. Further EUR 786k were paid in cash and the remaining EUR 1,806k were reclassified to equity in the course of a contribution in kind.

In the same context, liabilities from employee benefits pursuant to IAS 19 amounted to EUR 2,333k as of December 31, 2016. These employee benefits were reported in other current non-financial liabilities. Thereof, EUR 616k were derecognized through personnel expenses within administrative expenses. EUR 921k were paid in cash and further EUR 796k were reclassified to share premium.

The decline of deferred revenues is attributable to faster deliveries to customers and the corresponding lower deferral of customer fees. Additionally, in the course of adopting IFRS 15 “Revenue from Contracts with Customers”, liabilities from loyalty bonuses are recognized within deferred revenues and the prior year numbers were restated accordingly. Less loyalty bonuses given to customers contribute to the decrease of deferred revenues.

The decrease of trade payables by EUR 2,738k is based on recurring payment schedules in the regular business course and declined inventories as a result from the optimization of working capital. Furthermore, expenses for marketing and logistics decreased caused by cost savings.

Current financial liabilities however increased by EUR 3,511k to EUR 3,575k as of December 31, 2017. windeln.de borrowed money market loans amounting to EUR 3,500k for financing of inventories. The loans will be repaid in Q1 2018.

2.4.4. Net overall statement

Overall, business year 2017 underachieved. Although revenues of the Group increased again in 2017, the growth fell short of the medium-term outlook of at least 15% CAGR. This is mainly attributable to the change of the marketing strategy in Germany and temporary integration effects at Bebitus. The cost reduction measures initiated in 2016 led to initial success in the financial year. Operating contribution and adjusted EBIT in percentage of revenues show visible improvements compared to prior year. The cash outflow could also be improved in 2017.

2.5. Other financial performance indicators[19]

	2017	2016	Change
Marketing cost ratio (as % of revenues)	5.3%	7.0%	-1.7pp
Adjusted fulfilment cost ratio (as % of revenues)	14.7%	17.4%	-2.7pp
Adjusted other SG&A costs (as % of revenues)	16.5%	16.1%	0.4pp
Operating contribution (as % of revenues)	4.8%	2.4%	2.4pp

In the consolidated statement of profit and loss, marketing costs are recognized within selling and distribution expenses. Marketing costs mainly consist of advertising expenses, including search engine marketing, online display and other marketing channel expenses, as well as costs for the marketing tools of the Group. In 2017, marketing costs amounted to EUR 11,161 (2016:

EUR 13,569k). We define marketing cost ratio as marketing costs divided by revenues for the measurement period. Marketing cost ratio increased by 0.9pp to 7.0% compared to prior year.

Fulfilment costs consist of logistics and warehouse rental expenses which are recognized within selling and distribution expenses in the consolidated statement of profit and loss. Adjusted fulfilment costs exclude costs and income in connection with the reorganization of warehouse locations. In 2017, costs related to the closure of the Swiss location and income from the release of provisions for onerous contracts are adjusted. In 2016, costs in connection with the reorganization of the Spanish warehouse were adjusted.

			Change	
kEUR	2017	2016	absolute in kEUR	relative in %
Logistics	27,326	30,222	-2,896	-10%
Warehouse rent	3,654	3,913	-259	-7%
Fulfilment costs	**30,980**	**34,135**	**-3,155**	**-9%**
Adjustments	95	-303	398	-131%
Adjusted fulfilment costs	**31,075**	**33,832**	**-2,757**	**-8%**
Adjusted fulfilment cost ratio (as % of revenues)	**14.7%**	**17.4%**	**-2.7pp**	

In 2017, the adjusted fulfilment cost ratio amounts to 14.7% compared to 17.4% in 2016. The improvement is mainly attributable to the decrease of logistics costs by 10%.

Other selling, general and administration expenses (other SG&A expenses) consist of selling and distribution expenses, excluding marketing costs and fulfilment costs, and administrative expenses as well as other operating income and expenses. Adjusted other SG&A expenses exclude expenses and income in connection with share-based compensation, expansion and reorganization as well as expenses for purchased intangible assets. In 2016, also expenses for company-law restructuring and ERP system change were excluded.

			Change	
kEUR	2017	2016	absolute in kEUR	relative in %
Selling and distribution expenses (w/o marketing and fulfilment costs)	32,880	20,709	12,171	59%
Administrative expenses	21,421	18,804	2,617	14%
Other operating income	-1,306	-971	-335	35%
Other operating expenses	782	839	-57	-7%
Other SG&A costs	**53,777**	**39,381**	**14,396**	**37%**
Adjustments	-18,719	-8,053	-10,666	>100%
Adjusted other SG&A costs	**35,058**	**31,328**	**3,730**	**12%**

In 2017, adjusted other SG&A costs (as % of revenues) came to 16.7% compared to 16.1% in 2016. The increase is mainly attributable to higher personnel expenses and higher depreciation and amortization within other selling and distribution expenses and administrative expenses.

We define operating contribution as adjusted gross profit exluding marketing costs and adjusted fulfilment costs. The adjustments of gross profit mainly relate to costs for share-based compensation.

			Change	
			absolut e	relative
kEUR	2017	2016	in kEUR	in %
Gross profit	52,335	51,772	563	1%
Adjustments	13	245	-232	-95%
Adjusted gross profit	**52,348**	**52,017**	**331**	**1%**
Marketing costs	-11,161	-13,569	2,408	-18%
Adjusted fulfilment costs	-31,075	-33,832	2,757	-8%
Operating contribution	**10,112**	**4,616**	**5,496**	**>100%**

In 2017, operating contribution increased by EUR 5,612k to EUR 10,228k compared to 2016 (EUR 4,616k). The increase is attributable to an improvement of marketing and adjusted fulfilment costs. Accordingly, operating contribution as % of revenues doubled from 2.4% in 2016 to 4.8% in 2017.

2.6. Other non-financial performance indicators[19]

Non-financial performance indicators	2017	2016
Site visits	90,511,127	93,988,828
Mobile visit share (as % of site visits)	70.64%	63.37%
Mobile orders (as % of number of orders)	47.02%	45.50%
Number of orders	2,355,908	2,336,533
Gross order intake (in EUR)	206,291,947	204,497,057
Returns (as % of gross revenues from orders)	3.06%	5.13%

Site visits declined by 4% to 90,511,127 compared to prior year caused by the reduction of marketing expenses. The number of orders, however, increased by 1% to 2,355,908. With the new marketing strategy, the Group could thus attract those customers that are deemed to conclude a purchasing transaction.

With an amount of EUR 206,291,947, gross order intake is on a similar level as prior year. Returns, however, improved to 3.06% in 2017.

3. OUTLOOK

The positive development in online retail is expected to progress further in the future. The turnover in online retail in Europe is expected to reach EUR 329bn in 2017. Until 2022, a predicted compound annual growth rate (CAGR) of 7.3% is expected. The total market volume of the strongly growing Chinese cross-border e-commerce market is expected to reach EUR 540bn in 2018. The online retail for products for babies and toddlers is an important growth segment in this market.

In course of the approaching CEO change, the Group performed a detailed assessment of its operations. On February 6, 2018, the Group announced and initiated extensive strategic measures for the improvement of efficiency and reduction of costs. These measures include a streamlining of organization and reduction of costs at the Group's headquarter in Germany as well as a focus of international operations on regions with short to mid-term profitability potential. These measures improve the efficiency of the organization and, thus, make mid-term profitable and sustainable growth possible. In this context, a sale of Feedo is evaluated and the local Italian business pannolini.it is closed. Therefore, the following outlook relates only to shops remaining in the Group.

The Group aims to achieve growth in revenues on the level of 2017. The average order value is expected to clearly increase compared to 2017 and the regular customer ratio is expected to remain on the level of 2017. Two non-financial performance indicators, number of active customers and number of orders per active customers, are not planned anymore as these performance indicators are reactive. Historical data is only evaluated for these performance indicators in order to derive responses based on specific developments.

Special focus of the Group is placed on improved profitability and securing liquidity. This is supported by the measures determined and published in February 2018. The Group therefore expects a clear improvement of operating contribution and adjusted EBIT in percentage of revenues. Achieving break even, on basis of adjusted EBIT, is expected at the beginning of 2019.

4. OPPORTUNITIES AND RISK REPORT

The risk management system of the windeln.de Group has been implemented in order to identify and evaluate opportunities and risks at the earliest possible date. The objective of the risk management system is to proactively manage risks and thereby limit economic losses as well as to recognize and utilize potential opportunities by using improved corporate decision-making.

4.1. Risk management process

4.1.1. Organization and responsibility

- The risk management process is based on a lean organizational structure with clear roles and responsibilities.
- Pursuant to Sec. 91 (2) German Stock Corporations Act (AktG) the management board of windeln.de SE installed a group-wide risk management system. The management board sets the Group's risk strategy and approves the corresponding risk management structures and processes.
- The supervisory board ensures the effectiveness of the risk management system in place as part of its role to supervise the management board.
- The management board is supported by the risk management committee. This committee consists of the heads of the individual business divisions and functions and is responsible for enhancing and adapting the risk management system.
- Risks and opportunities are identified and evaluated locally in each business unit by the heads of the individual business divisions and functions. However, each employee is obliged to report any potential risks to the respective head of division.
- The identified risks and opportunities are reviewed as to whether they are still up-to-date on a biannual basis and are then reported to the risk management officer who is part of the group controlling division. The risk management officer prepares a risk portfolio, which is then submitted to the risk management committee and the management board. The risk management officer is also responsible for the central coordination of the risk management process and supports the heads of each division with the evaluation of their respective risks.
- The installation and adequacy of the risk early warning system is checked by the external auditor. No material findings were made in this respect.

4.1.2. Instruments

- The Group wide risk policy, which has been defined by the management board of windeln.de SE and is available to all employees of the Group, serves as a guideline for dealing with risks and opportunities within the Group. Besides of information about the individual steps of the risk management process, the policy also includes information about roles and responsibilities in risk management process. The contents of the guideline are reviewed regularly and changed as necessary to guarantee it remains up-to-date on account of the rapidly changing environment.
- A catalog with various risk categories has been drawn up and shall help to identify all possible risks.
- A standardized report file is used in order to guarantee consistent capture and evaluation of the individual risks and opportunities. Furthermore, corresponding countermeasures which reduce the individual risks are mentioned in this file as well.

- The opportunities and risks of each department and business unit are reviewed as to whether they are still up-to-date on a biannual basis and newly identified opportunities and risks are added to the report file. Risks are quantified using a rolling evaluation for the following 36 months from the time of remeasurement, although the given period for assessing the extent of damage and the probability of occurrence is 12 months.
- Each risk is assessed in a gross assessment and in a net assessment. In the net assessment the already implemented countermeasures of each risk are considered and reduce the extent of damage and the occurrence probability of the respective gross risk.
- The identified risks are subsequently reported to the management board in full detail. However, new risks with a certain extent of damage are reported directly to the management board using a standard file as an immediate report.
- An annual workshop is also held under the direction of the risk management officer and with all responsible heads of division in order to perform an in-depth evaluation of whether all captured risks are up-to-date and to identify any risks that have not yet been recognized.

4.2. Overview of risks

Any event that may negatively influence the Group's ability to achieve its operational or strategic objectives is classified as a risk. By contrast, any opportunity is anything that represents a positive deviation from the planned operational and strategic objectives.

Differentiation is made between event and planning risks so as to be able to appropriately capture and measure the risks of the windeln.de Group. Event risks are stated with both their extent of damage and their probability of occurrence, as this type of risk generally relates to non-recurring risks with a low occurrence probability. On the other hand, planning risks result from extremely volatile budget items and therefore have a high probability of occurrence. As a result of this, the focus when evaluating these risks is exclusively on their extent of damage. The strong volatility may, however, also mean that a planning risk results in a positive deviation from the target and therefore represents an opportunity for the Group.

Risks are broken down using the following classes in the risk matrix:

Classes for probability of occurrence for event risks

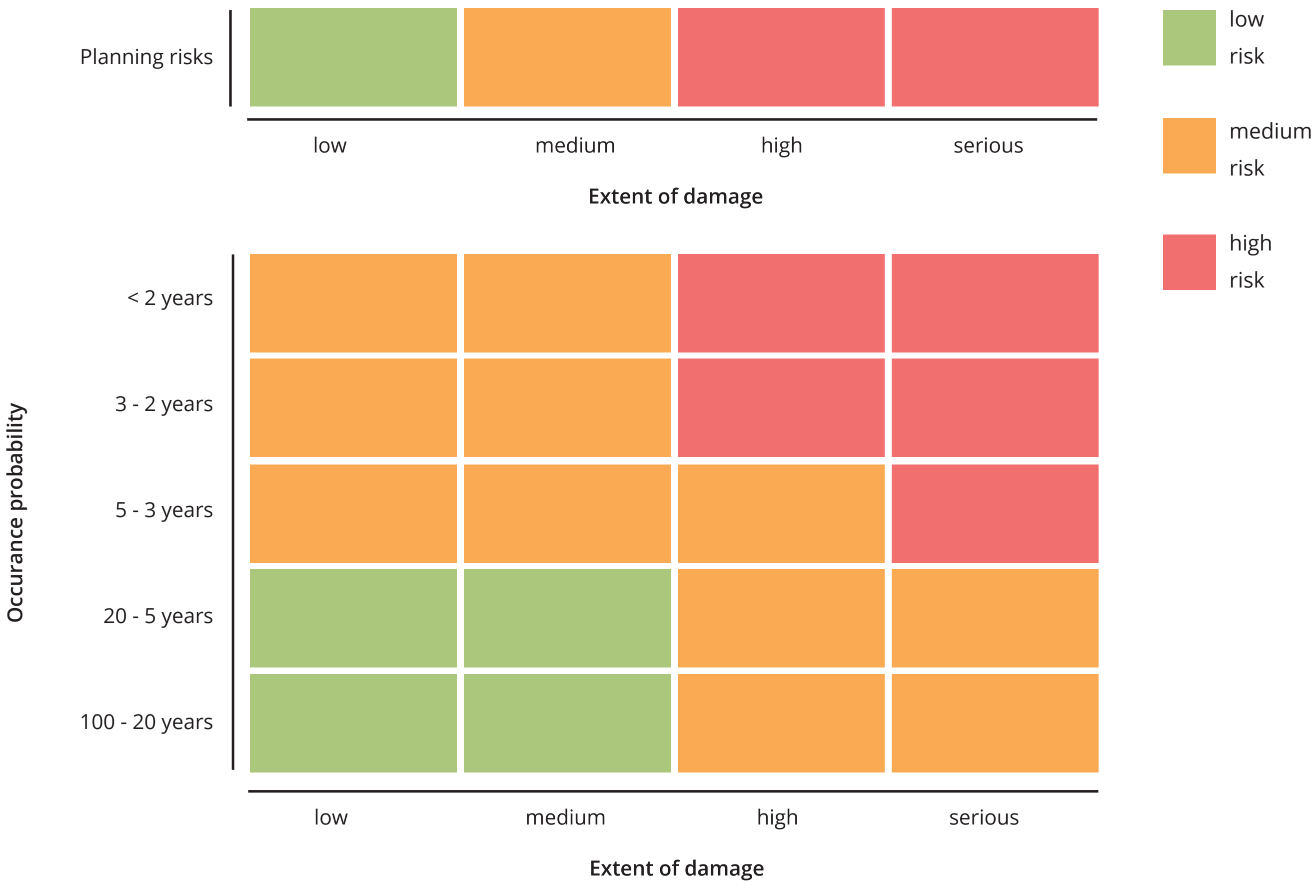
Class	Probability of occurrence	Description
1	0% - 4.9%	Occurrence possible once in 100 to 20 years
2	5% - 19.9%	Occurrence possible once in 20 to 5 years
3	20% - 29.9%	Occurrence possible once in 5 to 3 years
4	30% - 49.9%	Occurrence possible once in 3 to 2 years
5	50% - 100%	Occurrence possible at least once in 2 years

The extent of damage describes the worst-case scenario each risk could have on the Group's earnings before interest and taxes. EBIT is a significant factor for the cash requirements of the Group. Therefore, the following risk assessment is also a significant indicator for the liquidity risk of the Group. Please refer to section 6.1.3. Liquidity risk for further information.

Classes for extent of damage for event and planning risks

Class	Extent of damage	Description
1	EUR 0.05 Mio. - EUR 0.5 Mio.	low impact
2	> EUR 0.5 Mio. - EUR 1.0 Mio.	medium impact
3	> EUR 1.0 Mio. - EUR 2.0 Mio.	high impact
4	> EUR 2.0 Mio.	critical impact

The following risk matrices are the result of the aforementioned classes for probability of occurrence, which is only relevant for event risks, and extent of damage in the net assessment:



4.3. Overall assessment of the risk and opportunities situation in the Group

The Group sees significant risks, in particular with regard to macroeconomic development in the People's Republic of China and with regard to the development of the competitive situation in the Chinese market.

In this context, risks related to the planned offering of new distribution channels for Chinese customers and the Group's dependency on key suppliers for milk formula products is one of the biggest risks for the Group. By establishing a strong partnership with its key suppliers, the Group seeks to reduce this risk. However, a deterioration of supplier conditions could have a strong negative impact on the Group's result.

Huge risks may also arise from finance and accounting topics. This is in particular relevant for a potential impairment of goodwill and domains.

The planned divestiture of the Feedo Group is also highly risky and could result in a high risk which could have a serious impact on the Group's result.

4.3.1. Strategic risks

a) Macroeconomic risks

The Group's development greatly depends on the general economic situation in Europe and the People's Republic of China. A period of economic recession could negatively impact purchasing behavior in several product categories and result in revenue losses and higher stock levels. In particular, a deterioration of the Chinese economy could have negative consequences on account of the great significance of the Chinese sales market for windeln.de Group. However, it is assumed that demand for products for babies and toddlers will continue, even in the event of a recession.

New laws for exports of baby food could also significantly harm the business in China. As possible changes in the Chinese law are difficult to predict and due to the high importance of Chinese market for the Group, the risk is regarded as high.

A continuous monitoring of these risks as well as offering new sales channels such as the Tmall shop, where the Chinese customers can buy in local currency, contribute to a reduction of the aforementioned risks. The Group is constantly working on identifying further countermeasures in order to actively steer those risks. Nevertheless, the Group expects an increased extent of damage if the risk would occur and hence, the risk is deemed to be high.

b) Competitive risks

The Group is exposed to fierce competition. New competitors in the market may cause a decline in the price level as well as higher costs for online marketing. These would have a negative effect on revenue and even more on margins. Consequently, a decreasing demand could impact the Group's earnings and liquidity and might also lead to overstocks in the warehouses. By establishing a strong partnership with its suppliers the Group tries to offer its customers an ideal range of baby and toddler products and in this way reduces the potential risk resulting from competition. Moreover, the Group is also expanding its sales and distribution channels and further opens up the Chinese market by establishing a Chinese company as well as by investing in the China team at the headquarter in Munich. Due to a growing competition in online trading the risk has increased compared to the previous year and is deemed to be high.

c) Risks resulting from expansion activities

If the planned divestiture of the Feedo Group is delayed or a deal is cancelled this could have a major impact on the Groups result. Hence, the Group sees a high risk related to the envisaged sale of the subsidiary.

4.3.2. Opportunities and risks from operations

a) Supplier and product quality risks

As the Group is dependent on a limited number of suppliers, in particular for baby food and diapers, it is subject to the risk that suppliers default or offer their products under deteriorate conditions. This would have a negative effect on revenues and in particular on product margins. If the Group is able to purchase goods from its suppliers at particularly favorable conditions, this would have a positive influence on the business result and consequently, will lead to an opportunity for the Group. The Group attempts to minimize the aforementioned risk by establishing long-term and strong business relationships with reliable and well-established suppliers. In case of a risk occurrence, the Group expects a significant increase of the extent of damage compared to previous year. Due to the low occurrence probability the risk is deemed to be medium.

A failure in the estimation of order quantities is another risk for the Group. This could either lead to a high proportion of sold out products or to overstocks in the warehouse. If the overstock consists of difficult to sell products this could lead to a higher inventory valuation allowance which would have a negative impact on the operating result. However, if the inventory valuation allowance could be reduced in the future due to new developments such as an improved inventory management, this would have a positive effect on the Group's result. Thus, a potential reduction of the inventory valuation allowance might also represent a great opportunity for the Group.

b) IT risks

If the Group is no longer able to operate, maintain, integrate and scale the mobile and network infrastructure and other technology, this could have a substantial negative impact on the business as well as on the financial performance and position. In particular, the stability and availability of online platforms as well as IT security with regard to customer data but also confidential corporate data could have negative consequences for the business. The continuous functionality of internal technical systems and databases also plays a significant role for this risk. The Group reduces this risk by investing in different systems and processes. Overall, the Group sees a medium risk which has increased compared to the risk assessment for the last annual report.

c) Logistic and payment risks

The Group's own warehouse and the warehouse locations managed by contractual partners are exposed to the danger of being destroyed by catastrophes such as fire or natural disasters. In addition to the loss of inventories and potential harm to employees, this would also lead to a substantial interruption of business activities. If planned logistic projects cannot be realized or are delayed this could be a high risk for the Group. The Group reduces this risk by detailed project management and ongoing identification of potential savings in the currently existing logistic processes. Compared to the previous year the risk has decreased and is now estimated as a medium to high risk.

d) Personnel related risks

The Group depends on key employees in management. Losing one of these employees would have correspondingly negative effects on the economic success. The Group counters this risk by installing remuneration models with a long-term focus. Furthermore, a higher than expected employee illness and turnover rate could lead to additional costs. The risk is deemed to be medium.

4.3.3. Financial risks

As an international company, the Group is subject to various tax and customs regulations. The risk relates to delivery of products to other countries and the corresponding country-specific VAT calculation using the local VAT rates. If this is calculated incorrectly or wrong customs duties are declared, additional late payment penalties and fines may be issued. By implementing new data management processes in the respective systems (ERP system, product management system) the Group was already able to significantly reduce the risk. The risk is deemed to be low.

The loss of value risk relates to a potential impairment of goodwill and domains. Under some circumstances a potential write-up of the goodwill could also be a huge opportunity for the Group. Due to the recent impairments the future probability of occurrence has increased. Hence, the risk has increased compared to the previous year and is estimated to be a high risk.

The subsequent purchase price payments which are a part of the acquisition agreement can represent a high risk for the Group. If the fair value evaluation needs to be adjusted as a result of changes in assumptions and new events this could have a negative effect on the Group's result. The maximum extent of damage would be high. However, the risk decreased a lot compared to the previous year and the occurrence of the maximum damage is assumed to be very low.

4.3.4. Legal and organizational risks

The Group is exposed to various national and international legislation and requirements at various levels as a result of the international expansion and the IPO in 2015. This primarily relates to consumer protection law and competition law. In order to meet all requirements and obligations, individuals have been made responsible and corresponding processes have been established to monitor all relevant developments in the Group. Overall, the legal risks are estimated to be a medium risk which have increased compared to the previous year due to new data protection guidelines.

The Group is subject to various risks in direct connection with the IPO. As a result of this, windeln.de SE took out the corresponding insurance during the IPO. This risk is classified as medium on account of the critical extent of damage but the very low probability of occurrence.

Due to the rapid growth, the Group is continuously faced with the challenge to implement and improve internal processes.

5. Internal controls and risk management system in terms of the Group financial reporting process

The objective of the internal control system and the risk management system in terms of the group financial reporting process is to identify, evaluate and control any risks that could influence the correct preparation of the consolidated financial statements. As a core component of the group financial reporting process, the internal control system comprises preventive, monitoring and detective security and control measures that ensure a proper financial reporting process in group accounting and operating functions.

The Group sets itself apart through its clear organizational structure. There are coordinated planning, reporting and early warning systems and processes throughout the Group that enable overarching analysis and management of risk factors of relevance to the results of operations and going concern risks. The functions throughout the group financial reporting process are distinctly allocated.

The IFRS consolidated financial statements and group management report are prepared centrally using a uniform reporting format at the group headquarters in Munich. Since 2015, standard software that is protected from unauthorized access has been implemented across the Group. The methods provided by the system to limit access rights are used to map the various responsibilities. The group headquarters defines binding reporting calendars and issues uniform reporting structures that generally serve to safeguard completeness and comparability. There is a standardized group chart of accounts which aims to ensure that the same issues are presented consistently. Currency translation, the consolidation of income and expenses and the elimination of intercompany balances are performed automatically. Any offsetting differences are automatically posted in the system, but checked manually and adjusted if necessary. The automatic validation processes in place and the additional analytical plausibility checks, which are performed regularly, guarantee the correctness and completeness of the consolidated financial statements of windeln.de SE. Corporate issues are analyzed, assessed and recorded for accounting purposes by the local finance teams as well as by employees in group accounting department and therefore included in external financial reporting. External accounting specialists are consulted if necessary. The exercise of accounting and measurement options is coordinated by the local finance entities with the group accounting in order to ensure a uniform and proper financial reporting in accordance with IFRSs throughout the Group. The allocation of sufficient personnel and material resources to group accounting form the basis for the efficiency of the divisions and personnel working on the financial reporting.

A group-wide risk management system that corresponds to the legal requirements is in place and is reviewed on an ongoing basis in terms of its functionality and adapted to current developments if necessary. Its purpose is to identify and evaluate risks at an early stage, and communicate them appropriately. This ensures that users of the report receive relevant and reliable information without delay.

The review mechanisms clearly defined within the areas assigned to group accounting as well as the inspection by the internal controlling division and the risk management system's early recognition of risk aim to ensure error-free group financial reporting.

The Group places a strong emphasis on employing highly qualified and experienced employees in the key accounting and risk management positions. The lingua franca of the Group is English, to ensure there are no translation or communication difficulties between entities in different countries.

On account of the small size and low level of complexity, the Group has not had a separate internal audit department to date and makes use of internal employees for review purposes.

The supervisory board concerns itself with material accounting, risk management, audit engagement and audit focus questions, among other things.

There were no changes to the financial reporting internal control system or risk management system between the end of the reporting period and the date of preparing the group management report.

6. Financial risk management and financial instruments

6.1. Risk from the use of financial instruments

The Group is exposed to various financial risks (the market price risk, comprising currency and interest rate risk, the credit risk and the liquidity risk) on account of its business activities. The Group's risk management system focuses on the unpredictability of developments on financial markets and aims at minimizing potential adverse effects on the financial position of the Group.

Risk management is performed by the corporate finance department. As in the prior year, a Risk Coordinator assumes that function as part of Group Controlling department. Additionally, a new function of treasury management was set up in 2017. Both the Risk Coordinator and the Head of Treasury identify and assess financial risks in close cooperation with the Group's operating units. The management board prescribes the principles for Group-wide risk management and policies for certain risks, such as foreign currency, interest rate and credit risks, and for the use of derivative and non-derivative financial instruments, as well as the investment of cash surpluses.

In 2017, windeln.de concluded derivatives in the form of forward exchange transactions for the first time to minimize currency risks.

6.1.1. Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks include interest rates, currency and other price risks.

a) Currency risk

The Group's international activities expose it to foreign currency risks. The risk mainly relates to revenue generated in foreign currency as well as goods purchased in foreign currency. For example, if a devaluation is performed on the functional currency, the acquisition cost for goods purchased in foreign currency increase, and the revenue translated into the functional currency generally also increases at the same time. The two effects counterbalance each other, meaning that there is only a currency risk if goods are purchased in one currency and sold in another. The Group attempts to mitigate this risk through natural hedging, whereby products are purchased in the local currency and then resold to customers in the same currency. This is particularly relevant for the business activities in Switzerland, which are operated by windeln.de SE. As the Group does not purchase any products in CNY, natural hedging does not apply for the business activities in China. In addition, local entities currently make purchases in other foreign currencies, albeit for immaterial amounts. The Group uses regular analyses to monitor the volume of these purchases. At the same time however, an appreciation of the functional currency can also lead to improved earnings, meaning that the risk also represents an opportunity.

If natural hedging is insufficient to minimize currency risk the Group uses forward exchange transactions. With these transactions, windeln.de primarily limits the risk exposure on future cash inflows. This has become necessary in 2017 for the first time. Please refer to section 11.1. of the notes for further information.

On account of exchange rate fluctuations when translating the local separate financial statements into the group currency, a currency risk can also arise if there are changes to items in the statement of financial position and income statement of a subsidiary. The changes caused by currency fluctuations are presented in equity. The windeln.de Group is currently exposed to such a risk at four of its subsidiaries, although for three of these subsidiaries, the risk to the Group is classified as low on account of the size of these entities. Overall, the risk is estimated to be low.

b) Interest rate risk

Interest rate fluctuations may have a negative or positive impact on the business result, equity and the future cash flows. Interest rate risks from financial instruments can be incurred particularly in connection with borrowings.

6.1.2. Credit risk

Credit risk, otherwise known as default risk, is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The credit risk comprises the total of trade receivables, other financial assets and cash and cash equivalents.

The risk is particularly relevant in terms of a potential default of trade receivables. For this reason, credit limits are established for all customers based on internal rating criteria. Trade receivables arising in connection with the “buy on account” transactions are sold to a third party as they arise. All outstanding receivables are monitored on a regular basis and are subject to a three-tier dunning procedure. In light of the age structure of the trade receivables, specific bad debt allowances are recognized to reduce the risk. Overdue and unsuccessfully dunned receivables were sold at a fixed until Q1 2016. Since Q2 2016, unsuccessfully admonished receivables are submitted to a service provider. Uncollectible amounts are fully derecognized with an effect on income.

In addition, there is a default risk for cash and cash equivalents and for time deposits if banks can no longer meet their obligations. This credit risk is mitigated by spreading deposits between a number of banks with good credit ratings. The windeln.de Group considers the overall risk to be very low.

6.1.3. Liquidity risk

Liquidity risk is the risk that the Group will potentially not be able to settle its financial liabilities when they fall due. An efficient liquidity management system is therefore used to guarantee that the Group is solvent at all times. The Group monitors the risk of liquidity bottlenecks continuously using liquidity planning prepared at group level.

Existing credit lines with two banks amounting to a maximum of EUR 10m are used to cover liquidity in case of a high short-term need for liquidity. As of the reporting date, windeln.de SE could use credit lines of EUR 3.72m of which the Group used EUR 3.5m in the form of short term money market loans. There are therefore no liquidity risks for the Group at present.

A delay of the strategic measures initiated in 2018, the occurrence of risk factors as presented in opportunities and risks report as well as a deviation from the business plan in 2018 could result in a material deterioration of the liquidity situation of the Group.

7. Takeover related disclosures pursuant to Secs. 289a (1) and 315a (1) German Commercial Code (HGB)[20]

7.1. Composition of issued capital

The Company’s capital stock came to EUR 28,472,420.00 as of December 31, 2017. The capital stock is divided into 28,472,420 no-par value bearer shares with an imputed share in the capital stock of EUR 1.00 per share. The shares are fully paid in. All shares have the same rights and duties attached. Every share has one vote.

20 Disregarding transactions that are outside the scope of Sec. 289a No. 1, and Sec. 315a No. 1 HGB.

7.2. Participations in the capital, which exceed 10% of the voting rights

As of the end of the financial year 2017, there were the following direct and indirect participations in the capital of windeln.de SE that exceeded the threshold of 10% of the voting rights:

Direct investments		
Acton GmbH & Co Heureka KG	Munich	Germany
MCI.PrivateVentures Fundusz Inwestycyjny Zamkniety	Warsaw	Poland
Indirect investments		
DN Capital (UK) LLP	London	United Kingdom
DN CAPITAL - GLOBAL VENTURE CAPITAL II LP	St. Helier	Jersey, Channel Islands
DN CAPITAL - GLOBAL VENTURE CAPITAL III LP	St. Helier	Jersey, Channel Islands
DN CAPITAL - GVC GP LP	St. Helier	Jersey, Channel Islands
DN CAPITAL - GVC II GENERAL PARTNER (JERSEY) LIMITED	St. Helier	Jersey, Channel Islands
DN CAPITAL - GVC III GENERAL PARTNER LIMITED	St. Helier	Jersey, Channel Islands
DN CAPITAL - GVC III GP LP	St. Helier	Jersey, Channel Islands
Acton Capital Partners GmbH	Munich	Germany
MCI Capital Towarzystwo Funduszy Inwestycyjnych Spolka Akcyjna	Warsaw	Poland
Private Equity Managers Spółka Akcyjna	Warsaw	Poland

7.3. Statutory regulations and provisions of the articles of incorporation and bylaws concerning the appointment and removal from office of management board members, and concerning modifications to the articles of incorporation and bylaws

The supervisory board appoints the members of the management board on the basis of Art. 9 (1) and Art. 46 of the SE regulation (SE-Verordnung), Secs. 84 and 85 AktG and Sec. 6 (3) of the articles of incorporation and bylaws for a term of office of maximum five years. In accordance with Art. 6 (1) of the articles of incorporation and bylaws, the management board comprises one or more persons, otherwise the supervisory board determines the number of members of the management board.

The general meeting adopts resolutions on changes to the articles of incorporation and bylaws. The amendments to the articles of incorporation and bylaws are made pursuant to Secs. 179 and 133 AktG. According to Sec. 10 (5) of the articles of incorporation and bylaws, the supervisory board is entitled to make changes and additions to the articles of incorporation and bylaws that only relate to the wording. Pursuant to Sec. 4 (2) and (3) of the articles of incorporation and bylaws, the supervisory board is also entitled to change and rewrite Sec. 4 of the articles of incorporation and bylaws (capital stock) as necessary depending on the utilization of authorized or contingent capital.

7.4. Authority of the management board to issue shares or acquire treasury shares

7.4.1. Repurchase of treasury shares

By resolution of the general meeting on April 21, 2015, and confirmation of continued validity after the change of legal structure to a SE by the annual general meeting as of June 17, 2016, the management board was authorized, subject to the approval of the supervisory board, to acquire treasury shares for any permissible purpose up until April 20, 2020 in a scope of up to 10% of the capital stock existing either as of the date on which the resolution is passed or as of the date on which the authorization is exercised, whichever is lower. The shares acquired may not at any time amount to more than 10% of capital stock when taken together with other treasury shares held by the Company or allocable to the Company in accordance with Secs. 71d, 71e AktG. The authorizations can be granted once or several times, in whole or in partial amounts, in pursuit of one or several objectives by the Company, but also by group entities or by third parties on behalf of the Company or group entities. Among other things, the purchase of treasury shares is permissible for the following purposes: for withdrawal purposes, to offer to third parties in the course of business combinations or acquisitions and to be used as a component of variable remuneration and/or in connection with share-based payment or stock option programs of the Company or entities affiliated to it.

The management board was also authorized, subject to the approval of the supervisory board, to use certain derivatives to acquire windeln.de shares by April 20, 2020. All acquisitions of shares using these derivatives are limited to shares representing no more than 5% of the capital stock existing as of the date on which the resolution is passed by the general meeting, although the 10% limit of the aforementioned authorization to purchase treasury shares applies to acquisitions of shares using derivatives. The term of a derivative has to be defined that the shares are not acquired using the derivative after April 20, 2020.

7.4.2. Authorized capital 2016

The management board is authorized, subject to the approval of the supervisory board, to raise the capital stock once or several times up until May 3, 2020 by up to a total of EUR 9,619,346.00 by issuing new no-par value bearer shares in return for cash or non-cash contributions and, subject to the approval of the supervisory board, to preclude the shareholders' subscription rights under certain conditions and within defined limits (authorized capital 2015). In the German commercial register, the authorized capital as of June 17, 2016, is named Authorized capital 2016/I.

7.4.3. Conditional capital 2016/I

By resolution of the general meeting dated April 21, 2015, and confirmation of continued validity after the change of legal structure to a SE by the annual general meeting as of June 17, 2016, the management board was authorized, subject to the approval of the supervisory board, to issue by April 20, 2020 once or several times bearer convertible bonds and/or options, profit participation rights and/or bonds or a combination of these instruments with a total nominal amount of up to EUR 300,000,000.00 and grant the owners and creditors of these bonds with options and conversion rights on (also with conversion or option obligation) into new bearer shares in the Company with an imputed share in the capital stock of up to EUR 7,997,804.00 in accordance with the conditions of the bonds. Among other things, the management board was also authorized, subject to the approval of the supervisory board, to preclude the shareholders' subscription rights to bonds with convertible or warrant bonds into shares in windeln.de SE under certain conditions and within defined limits. The capital stock was contingently increased accordingly by up to EUR 7,997,804.00 (conditional capital 2015/I). This authorization to issue bonds has not yet been exercised. In the German commercial register, the conditional capital as of June 17, 2016, is named conditional capital 2016/I.

7.4.4. Conditional capital 2016/II

The Company's capital stock has been increased contingently by up to EUR 555,206.00 by the issue of up to 555,206 new shares (contingent capital 2016/II). The contingent capital increase will only be conducted to a limited extent and serves exclusively to fulfil options that are issued on account of the general meeting dated April 21, 2015 (confirmation of continued validity after the change of legal structure to a SE by the annual general meeting as of June 17, 2016) that authorized the granting of stock options to members of the management board and employees of the Company in accordance with the long-term incentive program 2015. In the German commercial register, the conditional capital as of June 17, 2016, is named conditional capital 2016/II.

7.4.5. Conditional capital 2017/I

The Company's capital stock has been increased contingently by up to EUR 1,200,000.00 by the issue of up to 1,200,000 new shares (contingent capital 2017). The contingent capital increase will only be conducted to a limited extent and serves exclusively to fulfil options that are issued on account of the general meeting dated June 2, 2017 that authorized the granting of stock options to members of the management board and employees of the Company in accordance with the long-term incentive program 2017. In the German commercial register, the conditional capital as of June 2, 2017, is named conditional capital 2017/I.

7.5. Significant agreements of the Company that are subject to a change of control

The significant agreements of the Company that are subject to a condition of a change of control relate to agreements concerning credit lines of the Company. In the event of a change of control, these agreements provide – as is customary – for the lender to have the right to terminate the agreement and accelerate the repayment and/or for the factor to have the right to terminate or renegotiate the terms of the agreement.

7.5.1. Company compensation agreements that have been entered into with management board members or employees for the event of change of control following a takeover bid

The supervisory board and/or management board are entitled under the Long-Term Incentive Programme (LTIP) granted to certain members of the management board and of management to demand the pro rata reversal of the outstanding options earned in accordance with the change of control event of the share purchased by the purchaser in return for a payment by the Company. In relation to the stock options not yet earned as of the date of the change of control, the supervisory board is authorized at its own discretion to grant different performance-based remuneration of the same economic value in return for reversal of the stock options of the LTIP (including share appreciation rights, phantom stocks or other stock options).

8. Corporate governance statement

The corporate governance statement pursuant to Sec. 289f HGB is available on the Company’s website (https://corporate.windeln.de) in the Investor Relations tab. It is also part of the corporate governance report, which is part of the annual report.

9. Remuneration report

Please refer to section 13.3 Remuneration report of the notes for further information on the remuneration of the management board and the supervisory board according to Sec. 315a (2) German Commercial Code (HGB).

München, March 12, 2018

windeln.de SE
The management board

Alexander Brand	Konstantin Urban
Dr. Nikolaus Weinberger	Jürgen Vedie

FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT AND OTHER COMPREHENSIVE INCOME

kEUR	Notes	2017	2016
Continuing operations			
Revenues	9.1	211,899	194,756
Cost of sales	9.2	-159,564	-142,984
Gross profit		**52,335**	**51,772**
Selling and distribution expenses	9.2	-75,021	-68,413
Administrative expenses	9.2	-21,421	-18,804
Other operating income	9.1	1,306	971
Other operating expenses	9.2	-782	-839
Earnings before interest and taxes (EBIT)		**-43,583**	**-35,313**
Financial income	9.3	1,673	1,043
Financial expenses	9.3	-57	-179
Financial result		**1,616**	**864**
Earnings before taxes (EBT)		**-41,967**	**-34,449**
Income taxes	8.12	4,053	-16
Profit or loss from continuing operations		**-37,914**	**-34,465**
Profit or loss after taxes from discontinued operations	9.4	-	-7,508
PROFIT OR LOSS FOR THE PERIOD		**-37,914**	**-41,973**
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:			
Actuarial gains or losses from remeasurement of defined benefit plans	8.8	-11	53
Deferred taxes relating to items that will not be reclassified	8.12	-	-11
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations	11.1	-54	-255
OTHER COMPREHENSIVE INCOME OR LOSS, NET OF TAX		**-65**	**-213**
TOTAL COMPREHENSIVE INCOME OR LOSS, NET OF TAX		**-37,979**	**-42,186**
Basic earnings per share (in EUR)	9.5	-1.41	-1.60
Diluted earnings per share (in EUR)	9.5	-1.29	-1.42
Basic earnings per share from continuing operations (in EUR)	9.5	-1.41	-1.31
Diluted earnings per share from continuing operations (in EUR)	9.5	-1.29	-1.17

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Assets kEUR	Notes	December 31, 2017	December 31, 2016
NON-CURRENT ASSETS			
Intangible assets	8.1	21,002	31,169
Fixed assets	8.2	625	865
Other financial assets	8.3	866	3,146
Other non-financial assets	8.4	206	330
Deferred tax assets	8.12	15	10
Total non-current assets		**22,714**	**35,520**
CURRENT ASSETS			
Inventories	8.5	19,174	21,645
Prepayments	8.5	332	374
Trade receivables	8.3	2,298	2,508
Income tax receivables	8.12	3	6
Other financial assets	8.3	7,783	7,330
Other non-financial assets	8.4	3,266	2,990
Cash and cash equivalents	8.6	26,465	51,302
Total current assets		**59,321**	**86,155**
TOTAL ASSETS		**82,035**	**121,675**

Equity and liabilities kEUR	Notes	December 31, 2017	December 31, 2016 R
EQUITY			
Issued capital	8.7	28,472	26,318
Share premium	8.7	168,486	159,993
Treasury shares	8.7	-	-370
Accumulated loss		-143,387	-105,473
Cumulated other comprehensive income		-298	-233
Total equity		**53,273**	**80,235**
NON-CURRENT LIABILITIES			
Defined benefit obligations and other accrued employee benefits	8.8	51	153
Other provisions	8.9	5	86
Financial liabilities	8.10	59	119
Other financial liabilities	8.10	59	589
Deferred tax liabilities	8.12	2,115	6,057
Total non-current liabilities		**2,289**	**7,004**
CURRENT LIABILITIES			
Other provisions	3.4, 8.9	315	424
Financial liabilities	8.10	3,575	64
Trade payables	8.10	14,779	17,517
Deferred revenues	3.4, 9.1	3,057	4,555
Income tax payables	8.12	2	12
Other financial liabilities	8.10	3,055	8,592
Other non-financial liabilities	8.11	1,690	3,272
Total current liabilities		**26,473**	**34,436**
TOTAL EQUITY AND LIABILITIES		**82,035**	**121,675**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

kEUR	Notes	Issued capital	Share premium	Treasury shares
As at January 1, 2017		**26,318**	**159,993**	**-370**
Total comprehensive income or loss of the period		-	-	-
Issue of share capital	8.7	2,154	1,141	-
Transfer of own shares	8.7	-	-370	**370**
Repurchase of own shares		-	-	-
Transaction costs	8.7	-	-46	-
Share-based payments	6, 8.8	-	7,768	-
As at December 31, 2017		**28,472**	**168,486**	**-**
As at January 1, 2016		**25,746**	**154,570**	**-**
Total comprehensive income or loss of the period		-	-	-
Issue of share capital	8.7	572	28	-
Repurchase of own shares	8.7	-	-	-370
Transaction costs	8.7	-	-30	-
Share-based payments	6, 8.8	-	5,425	-
As at December 31, 2016		**26,318**	**159,993**	**-370**

Accumulated loss	Actuarial gains/losses from remeasurement of defined benefit pension plans	Exchange differences on translation of foreign operations	**Other comprehensive income**	**Total equity**
-105,473	**14**	**-247**	**-233**	**80,235**
-37,914	-11	-54	-65	-37,979
-	-	-	-	3,295
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-46
-	-	-	-	7,768
-143,387	3	-301	-298	53,273
-63,500	**-28**	**8**	**-20**	**116,796**
-41,973	42	-255	-213	-42,186
-	-	-	-	600
-	-	-	-	-370
-	-	-	-	-30
-	-	-	-	5,425
-105,473	14	-247	-233	80,235

CONSOLIDATED STATEMENT OF CASH FLOWS

kEUR	Notes	2017	2016 R
Profit or loss for the period		-37,914	-41,973
Amortization (+) / impairment (+) of intangible assets	8.1	11,738	1,065
Depreciation (+) / impairment (+) of fixed assets	8.2	427	708
Payments (-) from share-based payment obligations	6	-176	-
Increase (+) / decrease (-) in other provisions	3.4, 8.9	-189	0
Non-cash expenses (+) from employee benefits	8.8	7,794	5,428
Other non-cash expense (+) / income (-) items		-227	43
Increase (-) / decrease (+) in inventories	8.5	2,575	5,454
Increase (-) / decrease (+) in prepayments	8.5	43	1,296
Increase (-) / decrease (+) in trade receivables	8.3	228	-39
Increase (-) / decrease (+) in other assets	8.3, 8.4	117	-1,508
Increase (+) / decrease (-) in trade payables	8.10	-3,058	-680
Increase (+) / decrease (-) in deferred revenues	3.4, 9.1	-1,506	-1,728
Increase (+) / decrease (-) in other liabilities	8.10, 8.11	-3,785	107
Gain (-) / loss (+) from disposal of intangible and fixed assets	8.1, 8.2	36	610
Interest expenses (+) / income (-)	9.3	0	3
Income tax expenses (+) / income (-)	8.12	-4,055	17
Income tax paid (-) / received (+)	8.12	-11	-27
Net cash flows from / used in operating activities		**-27,963**	**-31,224**
Proceeds (+) from sales of intangible and fixed assets	8.1, 8.2	63	22
Purchase (-) of intangible assets	8.1	-1,119	-1,434
Purchase (-) of fixed assets	8.2	-239	-741
Purchase (-) or proceeds from financial investments	8.3	1,875	-4,375
Payments (-) or refunds (+) in connection with additions to group structure less acquired cash and cash equivalents	6, 8.7	-787	397
Interest received (+)	9.3	6	18
Net cash flows from / used in investing activities		**-201**	**-6,113**
Proceeds (+) from issue of shares	8.7	-	74
Transaction cost (-) on issue of shares	8.7	-96	-27
Repayment (-) of finance lease liabilities	8.6, 10	-66	-55
Proceeds (+) from financial liabilities	8.6, 8.10	3,519	-
Repayment (-) of financial liabilities	8.6, 8.10	-12	-10
Interest paid (-)	9.3	-6	-21
Net cash flows from / used in financing activities		**3,339**	**-39**
Cash and cash equivalents at the beginning of the period	8.6	51,302	88,678
Net increase / decrease in cash and cash equivalents		-24,825	-37,376
Change in cash and cash equivalents due to foreign exchange rates		-12	0
Cash and cash equivalents at the end of the period	8.6	**26,465**	**51,302**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2017

1. Corporate information

windeln.de SE (the "Company") is a stock corporation under European law whose shares are publicly traded on the regulated market (Prime Standard) of the Frankfurt Stock Exchange since May 6, 2015. The Company is entered in the commercial register at Munich local court under HRB 228000. The registered offices of the Company are located at Hofmannstr. 51 in 81379 Munich, Germany.

windeln.de SE is the parent of the windeln.de Group ("windeln.de" or the "Group"). windeln.de SE and its subsidiaries are online retailers for baby and toddler products with operations in Germany and other European countries as well as in China. Business activities are transacted through the internet as well as a retail shop in Germany.

2. General principles

windeln.de SE is a parent company as defined by Sec. 290 German Commercial Code (HGB). Due to the issue of equity securities on the capital market, windeln.de SE is obliged pursuant to Sec. 315e (1) HGB in conjunction with Article 4 of the Regulation of the European Parliament of July 19, 2002, to prepare the Company's consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) as adopted in the EU. These consolidated financial statements for the financial year 2017 were prepared in accordance with the IFRSs and Interpretations of the IFRS IC as well as the supplementary provisions of Sec. 315e (1) HGB.

The consolidated financial statements take into account all IFRSs endorsed as of the end of the reporting period and whose adoption is mandatory in the European Union. Compliance with the standards and interpretations gives a true and fair view of the financial performance and position of windeln.de.

The management board prepared the consolidated financial statements on March 12, 2018, and thus approved them for publication as defined by IAS 10. The consolidated financial statements and the group management report are submitted to and published in the Bundesanzeiger (German Federal Gazette). The Company's supervisory board has the authority to amend the consolidated financial statements.

3. Basic accounting policies

3.1. Basis of presentation

The consolidated financial statements are generally prepared on the basis of accounting for assets and liabilities at amortized cost, with certain financial assets and financial liabilities measured at fair value through profit or loss. Assets and liabilities are accounted for using the disclosure and measurement rules in the relevant IAS or IFRS, which are explained in detail in notes 8 through 10.

The statement of comprehensive income was prepared using the function of expense method and is presented in two related statements.

The statement of financial position is classified based on the maturities of assets and liabilities. Assets that are sold, used in normal operations or settled within twelve months are classified as current. Liabilities are current if they have to be settled within twelve months of the end of the reporting period. Assets and liabilities with a maturity of more than one year are classified as non-current. Deferred tax assets and liabilities are classified as non-current assets and liabilities pursuant to IAS 1.56.

The consolidated financial statements are prepared in Euro (EUR), which is both the functional currency and the reporting currency of windeln.de SE. Unless otherwise indicated, all values in the notes to the consolidated financial statements are rounded to the nearest thousand Euro (EUR k) in accordance with commercial practice.

Apart from abbreviated financial years due to the date of founding of the respective entity, the financial year corresponds to a calendar year for all group entities.

3.2. New accounting standards issued by the IASB

Pursuant to Regulation (EC) No. 1606/2002, the financial reporting standards issued by the IASB and endorsed by the European Commission for adoption in the European Union are the basis for IFRS accounting. The new or revised IFRSs published by the IASB are subject to mandatory application in the EU only after a corresponding decision has been made by the Commission in the endorsement procedure.

The Group has applied IFRS 15 "Revenue from Contracts with Customers" for the first time for its annual reporting period commencing on January 1, 2017. The new standard is adopted before the required effective date (early adoption) under the full retrospective method, it has no impact on the results of operation of the Group. The effects of the first adoption on the Group's net asset position are described in note 3.4. The accounting policy is described in note 9.1.

Furthermore, the Group has adopted the Amendments to IAS 12 "Recognition of Deferred Tax Assets for Unrealised Losses" and the annual improvements to IFRSs (2014-2016 cycle). The adoption has no impact on the Group's net assets, financial position and results of operations.

The following standards and interpretations issued by the IASB have not yet been adopted because they have not yet been endorsed by the EU and/or are not yet subject to mandatory application.

Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions
Required effective date: January 1, 2018
The application has no impact on the consolidated financial statements.

IFRS 9 Financial Instruments
Required effective date: January 1, 2018
Implementation of IFRS 9 at windeln.de is almost completed. The impact on the consolidated financial statements is as follows:

Classification of financial assets

- windeln.de categorizes its debt instruments as loans and receivables (LaR) or as held-to-maturity investments (htm) that are all measured at amortized cost. The majority of those debt instruments is measured at amortized cost under IFRS 9 because they are held with the intention to generate contractual cash flows, that solely represent redemption and interest payments.

  windeln.de sells receivables from customers to third parties on a regular basis. The derecognition of the original receivable and the recognition of the new receivable from third parties happens simultaneously at the time of origination. Therefore, at no balance sheet date, there are trade receivables designated for sale to third parties. The business model to sell customer receivables to third parties (factoring) has no impact on the cash flow conditions introduced by IFRS 9.
- Equity instruments are of immaterial amount and are categorized as available-for-sale financial assets (afs) but are recognized at cost because they cannot be reliably measured. Also under IFRS 9, a measurement at fair value would be required, but continues to be practically not possible. The FVOCI option will not be applied.

- Derivatives are of immaterial amount and – if they have a positive value as of the balance sheet date – are categorized as assets held for trading (hft) as they are not designated as a hedging instrument in effective hedging relationships. Derivatives do not fulfil the cash flow conditions introduced in IFRS 9, therefore they continue to be recognized at fair value through profit or loss under IFRS 9.

Impairment of financial assets

Trade receivables of the windeln.de Group have no significant financing component and can therefore be assessed under the simplified impairment model in IFRS 9, where the expected credit losses are recognized over the cumulated runtime.

Expected impairments on trade receivables are recognized when the original claim is incurred, and not when the claim actually becomes overdue. The Group intends to measure the expected credit loss upon historic default quotas. The amount of the total expected credit loss will be slightly higher compared to the current impairment method.

New regulations on measurement of financial liabilities and accounting of hedging instruments are not applicable at windeln.de.

<u>IFRS 16 Leases</u>

Required effective date: January 1, 2019

Implementation progress and expected impacts on the consolidated financial statements are as follows:

The application of the new standard will affect leased items such as office and warehouse spaces and leased company cars if they exceed terms of twelve months or quantitative threshold (net future lease payments) of EUR 5,000. Their recognition as “right-of-use” (formerly finance lease) will result in a capitalization of that right of use, and simultaneously a capitalization of financial liabilities. windeln.de Group opts to continue to recognize short-term and low-value lease agreements as “service leases” (formerly operating lease).

The new standard will be adopted on January 1, 2019, using the retrospective modified method that allows to recognize all lease agreements under IAS 17 as right-of-use assets in the sense of IFRS 16, irrespective of whether they had been previously classified as finance leases or operating leases. windeln.de will apply the practical expedients and

- apply a single discount rate to a portfolio of leases,
- adjust the right-of-use asset by the amount of any provision for onerous leases pursuant to IAS 37, and
- exclude short-term and low-value lease agreements from capitalization.

In the course of adoption, comparative periods are not restated; an adjustment to the opening balance of retained earnings is recognized instead.

The Group currently analyzes all lease agreements, whereas priority is given to legal entities with operating business rather than to service entities. Especially the estimate of the use of renewal options requires additional investigation. Therefore, no estimate of the quantitative impact on the Group’s net assets can yet be provided. IFRS 16 will not impact the financial position of the Group, however, presentation of cash flows in the cash flow statements will change. In addition, a shift of expenses from operating lease expenses to financial expenses from lease liabilities is expected.

<u>Annual improvements to IFRSs (2015-2017 cycle)</u>

Required effective date: January 1, 2019

The application has no impact on the consolidated financial statements.

3.3. Significant accounting judgments and estimates

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of income, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. The assumptions and estimates are based on premises that reflect the respective knowledge available at the time. The anticipated future business development was assessed by reference to the circumstances prevailing at the time of preparing the consolidated financial statements and the realistically assumed future development of the environment.

Uncertainty about these assumptions and estimates and the development of the framework conditions, which cannot be influenced by management, could result in outcomes that require adjustments to the carrying amount of the asset or liability affected in future periods.

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period are described in notes 8 through 10.

3.4. Presentation of loyalty bonuses

In connection with the early adoption of IFRS 15 “Revenue from Contracts with Customers”, unfulfilled performance obligations from loyalty bonuses are presented within deferred revenues as part of so-called contract liabilities that are accounted for under IFRS 15, and not within provisions that are accounted for under IAS 37. Thus, the position “deferred revenues” cumulates all unfulfilled performance obligations of the Group towards customers. The change in accounting policy is applied retrospectively and has the following impact on the consolidated statement of financial position:

	as presented	Loyalty bonuses	Adjusted
kEUR	**December 31, 2016**		**December 31, 2016 R**
Other current provisions	1,662	-1,238	424
Deferred revenues	3,317	1,238	4,555
Total current liabilities	**34,436**	**-**	**34,436**

	as presented	Loyalty bonuses	Adjusted
kEUR	**January 1, 2016**		**January 1, 2016 R**
Other current provisions	2,221	-1,932	289
Deferred revenues	4,352	1,932	6,284
Total current liabilities	**34,373**	**-**	**34,373**

The tables in the presented consolidated financial statements are marked with “R” if the disclosed numbers were restated compared to the last published consolidated financial statements as of December 31, 2016.

4. Segment reporting

An operating segment as defined by IFRS 8 is a component of an entity that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the entity’s chief operating decision maker to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

windeln.de Group sells baby, toddler and children's products as an E-Commerce retailer. The product portfolio is homogenous in all sales market. As an e-commerce retailer, the Group offers its products on the Internet regardless of the customer's geographic location. Since the abandonment of the Shopping Club business, a single Group-wide Ready to Ship business model is pursued.

With the accelerating integration, most of the shops were migrated to a uniform technical platform in 2017; furthermore, the operating business of the three Bebitus shops was transferred to the legal entity windeln.de SE, who also operates most of the other shops of the Group. Essential management functions of the Group were centralized in 2017, such as logistics, category management, operating procurement, marketing, customer service and administrative functions. In addition to management structures, also reporting structures were reorganized, so that since 2017, windeln.de is managed as a One-Segment-Group.

There are no individual customers with whom more than 10% of total revenue is recorded. The breakdown of revenue by country and product group is explained in note 9.1.

Non-current assets in Germany amount to EUR 11,437k (December 31, 2016: EUR 3,823k). The main non-current assets of the Group are located in the followings countries:

- Poland: domains of EUR 8,620k (December 31, 2016: EUR 13,712k)
- Spain: In 2017, the domains were transferred to windeln.de SE and are located in Germany as of December 31, 2017. (December 31, 2016: EUR 11,121k).
- Switzerland: domains of EUR - (December 31, 2016: EUR 1,822k)

The main non-current assets in Poland and Switzerland are unchanged by nature, however their carrying amounts were reduced by impairment, see note 8.1.

5. Basis of consolidation

Accounting policy

The financial statements of the entities included in the consolidated financial statements were prepared on the basis of the parent's uniform accounting policies. No joint ventures or associate entities exist. The group parent, windeln.de SE, controls all of the subsidiaries included in the consolidated financial statements, as it holds the majority of the voting rights.

All intra-group transactions, balances and unrealized gains and losses resulting from intra-group transactions are eliminated in full. Intercompany receivables and liabilities are offset. Offsetting differences are recognized in profit or loss if they arose in the reporting period. Intercompany income and expenses are offset as part of the consolidation of intercompany profits. Intercompany profits and losses are eliminated. Acquisition accounting of subsidiaries is performed in accordance with IFRS 10 in conjunction with IFRS 3 by offsetting the carrying amount of the investment against the remeasured equity of the subsidiary on the acquisition date (remeasurement method).

Business combinations are accounted for using the purchase method. The consideration transferred in an acquisition (cost of an acquisition) corresponds to the total fair value of the assets given up, equity instruments issued and liabilities assumed as of the acquisition date, including the fair value of assets or liabilities from contingent consideration arrangements. Identifiable assets, liabilities and contingent liabilities in the course of a business combination are measured initially at their acquisition-date fair values. Acquisition-related costs are expensed as incurred. Goodwill is initially measured at cost, being the excess of the total consideration transferred over the Group's net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference ("negative goodwill") is recognized directly as a profit in profit or loss.

Contingent purchase price components are included in the determination of the purchase price at their fair value recognized on acquisition. Contingent purchase price components can be equity instruments or financial liabilities or assets. Subsequent changes in the fair value of a contingent consideration classified as an asset or a liability are measured in accordance with IAS 39 or IAS 37, and any resulting profit or loss is recognized in profit or loss or in other comprehensive income. If the contingent consideration is classified as equity, it is not remeasured and its subsequent settlement is accounted for within equity.

Gains or losses from the deconsolidation of subsidiaries are recognized in the statement of comprehensive income.

Recognition in group financial statements

As of December 31, 2017, the Group's scope of consolidation includes windeln.de SE and the following subsidiaries:

Name	Interest of the Group	Pro rata equity (IFRS) in kEUR as of December 31, 2017	Purpose of the company
windeln.ch AG, Uster, Switzerland	100%	490	To provide services in the field of international e-commerce. The company was acquired on December 12, 2013.
pannolini.it S.r.l., Milan, Italy	100%	66	To promote and support the operation of online platforms for the distribution of baby and toddler products as well as products for families and to provide general services to assist the distribution of these products. The company was founded on April 24, 2015.
Feedo Sp. z o.o., Warsaw, Poland	100%	-5,241	Holding company of the Feedo Group and service company for the Polish market providing marketing, IT development, procurement and administrative services. The company was acquired on July 3, 2015.
MyMedia s.r.o., Prague, Czech Republic	100%	-5,012	To operate webshops and distribute baby and toddler products as well as products for families to end customers domiciled in the Czech Republic, Slovakia and Poland. The company is wholly owned by Feedo Sp. z o.o.
Bebitus Retail S.L.U., Barcelona, Spain	100%	-2,943	To promote and support the operation of online platforms for the distribution of baby and toddler products as well as products for families and to provide general services to assist the distribution of these products. The company was acquired on October 6, 2015.
windeln.ro labs SRL, Sibiu, Romania	100%	54	Programming activities and other IT and software services. The company was founded on November 18, 2015.
Cunina GmbH, Munich, Germany	100%	-136	Retail and wholesale of baby and toddler products and of a complementary product range. The company was founded by means of a shareholders' agreement effective January 11, 2016, and by registration in the commercial register on April 6, 2016.
windeln Management Consulting (Shanghai) Co., Ltd., Shanghai, China	100%	148	Service company in the Chinese market for marketing activities and for the development of further distribution channels The company was founded on February 21, 2017.

The legal entity Urban-Brand Management Ltd., Wakefield, United Kingdom, was dissolved on February 14, 2017.

The subsidiaries are included in the consolidated financial statements from the date on which the Group obtains control of the subsidiary. They are deconsolidated on the date on which the Group ceases to have control.

Significant accounting judgments and estimates

Acquisition accounting for a business combination involves reporting all identifiable assets, liabilities and contingent liabilities at fair value at the acquisition date. One of the key estimates relates to determining the respective fair values of those assets and liabilities as well as of contingent considerations at the acquisition date.

If intangible assets are identified, depending on the type of intangible asset and the complexity of determining its fair value, either an independent report from an external valuation expert is used or the fair value is calculated internally using appropriate valuation techniques, which are usually based on the forecast of total expected future cash flows. These valuations are closely linked to assumptions made by management with regard to how the values of the respective assets will develop as well as to the assumed changes in the discount rate applicable.

In the course of the acquisition of subsidiaries, liabilities and assets may arise that are subject to estimates. Sensitivities with respect to estimation parameters are detailed in note 6.

6. Notes on the subsequent measurement of the acquisitions

Accounting policy

Contingent considerations (Earn Out) and claim assets are measured at their respective fair values; fair value changes are recognized in profit or loss.

6.1. Subsequent accounting for the acquisition of Feedo Sp. z o.o.

As of July 3, 2015, 100% of the shares in Feedo Sp. z o.o. and its subsidiaries (hereinafter referred to as “Feedo Group” or “Feedo”) were purchased. The consideration transferred for the acquisition comprises cash payments, shares in windeln.de AG (now windeln.de SE) as well as contingent considerations (Earn Out) that can be satisfied with either cash or with shares. Following a review of the sellers’ guarantees, windeln.de and both of the founders and one investor agreed in 2016 to adjust the subsequent purchase price. The agreement resulted in a retrospective adjustment of the purchase price, and the recognition of a claim asset that will be offset against subsequent purchase price payments. For detailed information, reference is made to the Annual Report 2016.

In H1 2017, one of the founders of the Feedo Group voluntarily left the company. Pursuant to the purchase agreement, this qualifies as a leaver event. windeln.de is entitled to claim back from the leaver a portion of the shares paid as purchase price and a portion of the shares to be issued for 2015 and 2016 at beneficial conditions.

In May 2017, windeln.de SE, the founders of the Feedo Group and the investor agreed on a second amendment of the purchase agreement about (1) the unsettled subsequent purchase price payments for 2015 and 2016 and (2) the mutual claims from the leaver event. The main components of the contract amendment are as follows:

- The founders obtain 40% of contingent considerations for 2015 in cash. 60% of the subsequent purchase price is settled in shares. The investor obtains 100% of the purchase price in shares.
- The subsequent purchase price for the year 2016 is fully settled in shares.
- The cash contribution for the par value of EUR 1.00 per share, due from the founders, will be netted against the contingent consideration cash payment for the year 2015. Since the supplement payment will exceed the contingent consideration payment, a further settlement with shares was agreed (new clearing mechanism), also with the investor.
- The new clearing mechanism shall also be applicable to subsequent purchase price payments for the years 2017 and 2018.
- The consequences of the leaver event, pursuant to the purchase agreement, are as follows. The leaver must return a portion of the shares received at the time of the acquisition, and is rewarded with cash in the amount of 60% of the returned shares as of April 13, 2017. For the years 2015 and 2016, a correspondingly reduced number of shares will be issued. The leaver is

rewarded in cash. Other shares that the leaver receives for 2015 and 2016 are netted with the shares to be returned.
- Claims from seller guarantees towards the leaver are reduced by EUR 30k.

As a result of the amendment, both founders and the investor receive a total of 312,438 shares in the amount of EUR 1,034k and EUR 184k in cash as subsequent purchase price for the years 2015 and 2016. The subsequent purchase prices and the claim assets for the years 2015 and 2016 were fully paid in 2017 and are now satisfied.

The amount of subsequent purchase price payments for the years 2017 and 2018 is based on revenue growth of the Feedo webshops for the years 2016, 2017 and 2018. Based on the annual revenue growth realized, a contractually agreed revenue multiplier will be calculated which forms the basis for the future valuation. The revenue multiplier is additionally impacted by the development of the SDAX performance index. Each of the three beneficiaries receives one part each of the subsequent purchase price for their parts based on 10% of the previously calculated valuation. If actual IFRS earnings before taxes (EBIT) of the Feedo Group fall below a contractually fixed amount, subsequent purchase prices are reduced by the shortfall, applying a multiplier. If additional funding requirements exceed the EBIT shortfall, the subsequent purchase prices will also be reduced by this amount. Due to the leaver event, the leaver's subsequent purchase prices for the years 2017 and 2018 are reduced by 70% (2017) and 80% (2018). The subsequent purchase prices calculated under this method are then netted against the purchase price refund. The issuance of shares in windeln.de SE is to be settled by a cash contribution of the nominal value of EUR 1.00, however, the cash contribution of EUR 1.00 per share can be netted against the subsequent purchase price payment. The number of shares is determined based on the amount of the respective subsequent purchase price (after netting with the claim asset) and the applicable unweighted average closing price of the windeln.de share in the month of March that follows the corresponding year. As outlined, the number of shares may decrease by the netting of the cash contribution of the nominal amount. The subsequent purchase price will be settled at the earliest in April of the following year at the share price of the windeln.de share applicable at that time. However, windeln.de SE is also entitled to settle the amount in cash.

The fair value of the subsequent purchase price payments for the years 2017 and 2018 is partially (2017) measured by actual amounts and partially by estimates on planned revenues, EBIT and cash flows for the year 2018. Since the subsequent purchase price payments 2017 and 2018 have an effective value of EUR 0.00 – irrespective of the modification described in the paragraph above – no Monte Carlo simulation was performed in order to assess the future development of the SDAX performance index. As of December 31, 2017, the fair value of the subsequent purchase price payments for the years 2017 and 2018 amounts to a total of EUR 0.00. As of December 31, 2017, the unsettled subsequent purchase prices for the years 2017 and 2018 can achieve a maximum undiscounted value of EUR 4,817k. That amount does not yet include the netting with the purchase price refund of EUR 608k.

Share-based payments and short-term employee benefits

On July 3, 2015, the founders of the Feedo Group have received a fixed amount of shares in windeln.de SE. Taking into account the share price of windeln.de SE on July 3, 2015, of EUR 11.74, the fair value of those shares as of the acquisition date is EUR 576k.

This part of the consideration as well as a part of the subsequent purchase price to the founders resemble employee compensation, as the two founders have to be employed in the Group over a period of 42 months from July 3, 2015 (vesting period), in order to receive the full amount of the commitment. If they leave the Group within the 42-months period, they must sell 1/42nd of the shares received up to that date to windeln.de SE for each month of the vesting period that has not been served. The redemption price depends on the reason why the founders leave the Group and is expressed as a percentage of the share price applicable at the time. The subsequent purchase price outstanding after leaving the Group is also reduced, depending on the reason for and/or the timing of leaving the Group. In the renegotiations of 2016, the original vesting period of 36 months from July 3, 2015, was prolonged by six months to 42 months from July 3, 2015. Since the prolongation is unfavorable, it is not considered pursuant to IFRS 2.27, and a 36 months period is continued to be used as a vesting period.

This results in share-based payment that has to be reported separately pursuant to IFRS 2, as real equity instruments are granted in return for work. The shares prepaid to the founders are recognized within other non-financial assets. The prepayment was reduced in 2017 by EUR 120k, recognized as personnel expense within administrative expenses. Another EUR 120k was released though capital reserve without P&L impact, because the leave happened before the end of the vesting period.

Together with the subsequent purchase price payments for the years 2015 and 2016, one of the founders received another prepayment in shares, because this portion of the payment was not yet fully vested. The fair value of that payment was EUR 240k. That prepayment is also recognized as non-financial asset and is being released over the remaining vesting period of eleven months. As of December 31, 2017, the remaining vesting period is six months. The prepayment was reduced by EUR 109k in 2017, recognized as personnel expense within administrative expenses.

The sum of all prepayments decreased in 2017 from EUR 288k to EUR 179k and are fully recognized within other non-financial assets.

The fair value of the share-based payment obligations amounts to EUR 1,459k as of December 31, 2017. In relation to the share-based payment issued in the course of the subsequent purchase price, the factor "revenue growth" must be classified as a vesting condition in the form of a performance condition that is not dependent on market development, as it was worded in combination with a service condition. Pursuant to IFRS 2.19, performance conditions that are not dependent on market development are not taken into account when estimating the fair value of the stock options at the measurement date. Instead, vesting conditions must be taken into account by adjusting the number of equity instruments included in the measurement of the transaction amount. This means that, despite their classification as equity-settled share-based payments, the structure of the share options may lead to a potential change in the distributable total fair value of the stock options granted at the end of any reporting period. Ultimately this amounts to remeasurement of the fair value at the end of each reporting period. The corresponding personnel expense is recognized ratably over the vesting period of 36 months on a straight-line basis. It is still planned to settle the subsequent purchase in real equity instruments (shares). Therefore, they are recognized within share premium, pursuant to IFRS 2. EBIT adjustments, funding requirements and the development of the SDAX performance index do also qualify as performance condition that is not dependent on market development.

The total amount recognized in share premium decreased from EUR 1,808k as of December 31, 2016 to EUR 1,370k as of December 31, 2017. The decrease stems from following transactions:

- According to the contract amendment in 2017, a part of the subsequent purchase price for the year 2015 is settled in shares and not in cash. Originally, a full settlement in shares was agreed. Furthermore, payments arising from the so-called leaver event are made in cash. Pursuant to IFRS 2, an amount of EUR 396k was reclassified from share premium to accrued employee benefits as of the date of the contract amendment.
- Due to the remeasurement of the share-based payment commitment, the share premium decreased by EUR 282k, recognized as personnel expense within administrative expenses.
- Due to the settlement of subsequent purchase prices for the years 2015 and 2016, the share premium increased by EUR 240k. Accounting implications are explained in the sections on other non-financial assets.

As a consequence of the leaver event, 70% (2017) and 80% (2018) of the claims on subsequent purchase prices 2017 and 2018 were forfeited. Since the leaver event was deemed probable as of December 31, 2016, it was already accounted for in 2016.

The provision for employee benefits, that arose with the second contract amendment, was fully released, paid or settled with other claims of windeln.de in 2017:

- EUR 51k were written back to personnel expenses, since one of the founders forfeited his claims in a leaver event.
- A cash payment of EUR 176k was made to settle subsequent purchase prices 2015 and 2016.
- EUR 169k were netted against the claims of windeln.de arising from the cash contribution of EUR 1,00 per issued share.

Earn Out

The fair value of the contingent purchase price amounts to EUR - as of December 31, 2017, compared to EUR 2,340k as of December 31, 2016. The reduction results from following transactions:

- In 2017, EUR 7k of the Earn Out 2015 were paid in cash.
- In 2017, another EUR 1,489k of the Earn Outs 2015 and 2016 were netted with the claim asset from the first contract amendment.
- The remaining amount for the Earn Outs 2015 and 2016 of EUR 346k was settled in 2017 with the transfer of shares.
- The contingent purchase price of the years 2017 and 2018 was remeasured as of December 31, 2017, resulting in an income of EUR 499k, recognized within financial result.

Overall, these changes lead to a reduction in other current liability of EUR 1,841k and a reduction of other non-current liability of EUR 499k. From the acquisition of Feedo Group, no non-financial assets are recognized as of December 31, 2017.

Claims from the purchase price amendment

In the course of renegotiations with one of the investors and two founders of the Feedo Group, a purchase price refund of EUR 2,128k was agreed. Since the purchase price refund is to be netted with subsequent purchase price payments, the claim is recognized as other financial asset. As the claim is not interest-bearing, the amount was discounted. In 2017, the present value of the claim decreased from EUR 2,075k as of December 31, 2016, to EUR 576k as of December 31, 2017. The reduction results from following transactions:

- In 2017, EUR 1,489k were netted with contingent purchase prices for the years 2015 and 2016.
- A reduction of the nominal value of EUR 30k resulted in a reduction of the present value of EUR 26k, recognized within other operating expenses.
- The addition of accrued interest of EUR 16k is recognized within financial income.

Sensitivity analysis

The calculation of the fair value of subsequent purchase prices is based on actual values (revenues 2017 and EBIT 2017) as well as on assumptions (revenues 2018 and EBIT 2018). The assumptions 2018 are based on the budget plans for the year 2018 that were approved by the management board and the supervisory board. Based on the budgeted figures, scenarios are then calculated using various assumptions concerning revenue development. Based on the revenue calculated this way, payments are determined using the purchase price clauses and are discontinued at an interest rate of 4.31%. The actual development of revenue and EBIT can deviate from the assumed revenue development. In addition, the fair value of subsequent purchase prices is dependent on the actual (2017) and future (2018) development of the SDAX performance index. The future development of the SDAX performance index is measured in a Monte Carlo simulation.

A 10% increase in revenues in the year 2018 compared to the planning would not impact the share-based payment obligation. Vice versa, a 10% decrease in revenues in the year 2018 compared to the planning would not impact the share-based payment obligation.

A 10% increase in revenues in the year 2018 compared to the planning would not impact the Earn Out liability. Vice versa, a 10% decrease in revenues in the year 2018 compared to the planning would not impact the Earn Out liability. An increase of the Earn Out liability would occur if revenues increased by at least 43.5%.

6.2. Subsequent accounting for the acquisition of Bebitus S.L.

As of October 6, 2015, 100% of the shares in Bebitus Retail S.L.U. (hereinafter referred to as "Bebitus") were purchased. The consideration transferred for the acquisition comprises cash payments, shares in windeln.de AG (now windeln.de SE) and – for the two founders – subsequent purchase price payments. Purchase price payments must be settled partially in cash, and partially in either cash or equity instruments.

Since, windeln.de and the two founders of Bebitus were in discussions about the existence of guarantee claims from the share purchase agreement and about potential reductions of subsequent purchase prices. On July 19, 2017, windeln.de and the founders concluded a settlement agreement.

Subsequent purchase price components

From an economic perspective, the subsequent purchase price is composed of contingent purchase price payments (Earn Outs), short-term employee benefits (2015) and share-based payment obligations that can be settled in either cash or with equity instruments (2016 and 2017). The amount of the subsequent purchase price is based on revenue growth in relation to the business with customers in Spain, France and Portugal for the years 2014 to 2017. The subsequent purchase prices comprise three parts (2015, 2016 and 2017). Based on the annual revenue growth realized, a contractually defined revenue multiplier will be calculated in each case which forms the basis for the future valuation. The multiplier also depends on the development of the TecDAX performance index. For the years 2015, 2016 and 2017, each of the three beneficiaries will receive one part each of the subsequent purchase price for their shares based on 20% (for the year 2015) or 30% (for the years 2016 and 2017) of the previously calculated future valuation, respectively. For the year 2015, the subsequent purchase price will be paid in cash. For the years 2016 and 2017, the subsequent purchase price will be paid by issuing shares in windeln.de SE. The two founders will pay the nominal value of the shares of EUR 1.00 each per transferred share in cash. The number of shares is determined based on the amount of the respective subsequent purchase price and the unweighted average closing price of the windeln.de share 30 days before the date on which the amount of the subsequent purchase price was finally determined. The subsequent purchase price is settled four weeks after the approval of the respective annual financial statement of Bebitus Retail S.L.U. However, windeln.de SE is also entitled to settle the amount in cash.

In the orginal purchase agreement, the fair value of the subsequent purchase price payments is partially (2015, 2016 and H1 2017) measured by actual amounts and partially by estimates on planned revenue planning for H2 2017. Additionally, the fair value depended on the future development of the TecDAX performance index which was estimated for 2017 using a Monte Carlo simulation. Using a discount rate of 3.95%, a total fair value of EUR 20,237k was calculated as of July 19, 2017, before the conclusion of the settlement agreement.

Settlement agreement

The integral components of the settlement agreement are outlined as follows:

- The contractually fixed subsequent purchase price payments for the years 2015 and 2016 amount to EUR 8,412k. Thereof, EUR 1,700k are settled in cash and EUR 6,712k are settled with 1,906,695 shares. Cash settlement is explicitly designated for the subsequent purchase price for 2015. Equity settlement is designated for the subsequent purchase price for 2015 and 2016.
- The contractual baseline value of the subsequent purchase price 2017 amounts to EUR 4,869k. A calculatory cash contribution of EUR 1,00 per share is deducted from the baseline value. The number of shares and the cash contribution is measured based on the unweighted 30-day average stock price before August 31, 2018. The payment can be made in either shares or in cash. The issuance and transfer of new shares or the transfer of cash will be processed in 2018. windeln.de expects a settlement in shares.
- With the settlement agreement, a so-called leaver provision becomes obsolete. That means, there is no further requirement

for the founders to remained employed in the Group to obtain the full claim.
- There are no further obligations with regards to subsequent purchase price payments.

Thus, for the years 2015 and 2016, fixed purchase prices are paid instead of variable purchase prices that are measured based on the business development of Bebitus and the TecDAX index performance. The subsequent purchase price for the year 2017 is now solely dependent on the windeln.de stock price performance.

As a result of the settlement agreement, a cash payment of EUR 1,700k was made in 2017. Additionally, contractual liabilities of EUR 6,712k were settled through the transfer of 1,906,695 shares, of which EUR 6,484k were settled with 1,842,012 newly issued shares, and EUR 228k were settled with 64,683 treasury shares held by windeln.de SE. Subsequent purchase prices for the years 2015 and 2016 are fully settled now.

The accounting implication of the settlement agreement on the respective parts of the subsequent purchase price payments are outlined in the paragraphs below.

Short-term employee benefits and share-based payments

A part of the subsequent purchase price to the founders resembles employee compensation, as the two founders have to be employed in the Group over a period of 27 months from October 6, 2015 (vesting period), in order to receive the full amount of the commitment. If they leave the Group within the 27-month period, they only receive a certain percentage of the subsequent purchase price calculated for the year in which they leave the Group and for subsequent years, depending on the reason why they leave the Group.

This results in short-term employee benefits that have to be recognized separately pursuant to IAS 19 in relation to the subsequent purchase price for 2015 payable in cash, and share-based payments that have to be recognized separately pursuant to IFRS 2 in relation to the subsequent purchase price for the years 2016 and 2017, as they constitute the granting of real equity instruments in return for the provision of work. However, windeln.de SE is also entitled to settle subsequent purchase prices for the years 2016 and 2017 in cash.

Short-term employee benefits

Short-term employee benefits are accounted for according to IAS 19R.8. They are settled in cash. This part of the economic purchase price had already vested as of December 31, 2015, and the undiscounted obligation is recognized within other current non-financial liabilities. As of December 31, 2016, the fair value amounts to EUR 2,333k. Short-term employee benefits were fully settled or released in 2017:

- In the settlement agreement, the fair value of the liability was reduced by EUR 616k, recognized as writeback to personnel expense within administrative expenses.
- Due to the modification of the settlement, EUR 796k were reclassified to share premium, details are explained in the next paragraph.
- In 2017, EUR 921k of the liability were settled in cash.

Share-based payments

In relation to the share-based payment issued as part of the subsequent purchase price, the factor “revenue growth” must be classified as a vesting condition in the form of a performance condition that is not dependent on market development, as it was worded in combination with a service condition. Pursuant to IFRS 2.19, performance conditions that are not dependent on market development are not taken into account when estimating the fair value of the stock options at the measurement date. Instead, vesting conditions must be taken into account by adjusting the number of equity instruments included in the measurement of the transaction amount. This means that, despite their classification as equity-settled share-based payments, the structure of the share options may lead to a potential change in the distributable total fair value of the stock options granted at the end of any reporting period. Ultimately this amounts to remeasurement of the fair value at the end of each reporting period. The development of the TecDAX performance index also constitutes a performance condition that is not dependent on market development.

As a result of the cancellation of the leaver provision, a so-called settlement of granted equity instruments – pursuant to IFRS 2.28 – has occurred. The not yet recognized part of the share-based payment obligation was fully appropriated to the share premium. Since the fair value of the subsequent purchase price fixed in the settlement agreement falls below the fair values of the share-based payment obligation for the years 2015, 2016 and 2017, the fair values immediately before the settlement agreement, must be carried forward, pursuant to IFRS 2.27.

Overall, the share-based payment obliation increased from EUR 6,101k as of December 31, 2016, to EUR 13,663k as of December 31, 2017. The change results from following transactions:

- Due to the ongoing vesting until July 19, 2017, share premium increased by EUR 5,205k, recognized as personnel expense within administrative expenses.
- As the remaining vesting conditions became obsolete in the settlement agreement, the share-based payment commitment is fully vested in accordance with IFRS 2. This leads to a full appropriation to the share premium of EUR 3,230k, recognized as personnel expense within administrative expenses.
- Due to the equity-settlement of a portion of the 2015 subsequent purchase price, share premium increases by EUR 796k. Originally, a full settlement in cash was agreed. The settlement modification results in a reclassification from other non-financial liabilities to share premium.
- Due to the issuance of shares to settle subsequent purchase prices for the years 2015 and 2016, share premium decreased by EUR 1,441k.
- Due to the transfer of treasury shares of windeln.de SE, share premium decreased by another EUR 228k.

Earn Out

Contingent purchase price obligations (December 31, 2016: EUR 3,369k), recognized within other current financial liabilities, were fully settled or released in 2017:

- In the settlement agreement, the fair value of the liability was reduced by EUR 1,130k, leading to an income recognized within financial result.
- In 2017, EUR 779k of the liability were settled in cash.
- Additionally, new shares in the amount of EUR 1,460k were issued in 2017 and transferred to both founders of Bebitus.

The subsequent purchase price payments for the year 2017, that are to be settled in 2018, are accounted for as share-based payment obligation.

Sensitivity analysis

A sensitivity analysis fort he subsequent accounting of the acquisistion of Bebitus is not required, because the fair values recognized as of December 31, 2017, are not subject to assumptions.

7. Fair value hierarch

Accounting policy

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.

When measuring fair value, it is assumed that the transaction in the course of which the asset is sold or the liability is transferred is taking place either on the principal market for the asset or the liability or on the most advantageous market for the asset or the liability (if no principal market exists). The Group must have access to the principal market or the most advantageous market.

The fair value of an asset or liability is measured based on the assumptions that market participants would make when setting the price for the asset or liability. It is assumed here that the market participants are acting in their best economic interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value. In the process, observable market inputs are preferred to non-observable inputs.

All assets and liabilities measured at fair value or presented in the financial statements are classified on the basis of the following fair value hierarchy:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3: Unobservable inputs for the asset or liability.

For assets or liabilities that are recorded in the financial statements on a recurring basis at Group level, it is determined on a quarterly basis whether reclassification has taken place between the levels of the hierarchy by examining the classification at the end of each reporting period (based on the input parameters of the lowest level that is material to fair value measurement on the whole).

For financial instruments traded in an active market, the fair value is determined based on the market price at the end of the reporting period. A market is an active market if quoted prices on exchange markets, dealer markets, brokered markets, from an industry group, a price calculation service or a supervisory authority are available easily and on an ongoing basis and these prices represent current and regularly occurring market transactions made on an arm's length basis. For assets held by the Group, the appropriate quoted market price corresponds to the bid price offered by the purchaser.

The fair value of financial instruments not traded on an active market is determined using a valuation technique. Fair value is thus estimated on the basis of the results of a valuation technique that makes maximum use of market inputs, and relies as little as possible on entity-specific inputs. If all data needed for fair value are observable, the instrument is classified as Level 2. If significant data is/are not based on observable market data, the instrument is classified as Level 3.

If a financial instrument is to be classified as Level 3, the management board decides on which measurement method is to be used. To help with this decision, the Company's internal valuation unit presents the management board with a number of measurement options. Once one of the methods has been chosen, it is then applied consistently for this financial instrument. The fair value is calculated and recognized at least once a quarter.

Specific valuation techniques used to measure financial instruments include among others net present value models based on market data applicable on the reporting date.

Recognition in group financial statements

The following table shows the liabilities measured at fair value, categorized in accordance with the fair value hierarchy:

kEUR	Valuation date	Level 1	Level 2	Level 3
Derivative financial instruments	December 31, 2017	0	-	-
Contingent consideration	December 31, 2017	-	-	-
Derivative financial instruments	December 31, 2016	-	-	-
Contingent consideration	December 31, 2016	-	-	5,709

Derivative financial instruments comprise forward agreements to hedge foreign exchange risk exposures. They are measured at quoted prices in active markets and are therefore classified as Level 1.

Contingent considerations relate to the acquisition of the Feedo Group and the acquisition of Bebitus. The fair values are calculated on a quarterly basis. The accounting policies are explained in note 6 and were applied consistently throughout the reporting period. The financial instruments are to be classified as Level 3, because the fair values are calculated on the basis of the estimated future performance of the acquires companies. Changes in the fair value are recognized in the statement of comprehensive income as financial income or financial expenses. See note 9.3.

No assets were measured at fair value. There were no reclassifications between the different levels in the reporting period.

Significant accounting judgments and estimates

As far as possible, the Group uses observable market data to determine the fair value of assets and liabilities. If Level 1 inputs are not available, the fair values in Levels 2 and 3 are determined using generally accepted valuation techniques.

Significant estimates on the future performance of acquires companies are made for future revenues, EBIT covenants, contractually agreed performance of stock indices, and cash injections. The financial impact of each of the estimated parameters is described under “Sensitivity analyses” in note 6.

8. Notes to the consolidated statement of financial position

8.1. Intangible assets

Accounting policy

Software licenses

Purchased software licenses are capitalized based on the costs incurred to acquire the software and prepare it for its intended use. These are amortized on a straight-line basis over an estimated useful life of five years (for ERP software) or three years (other software than ERP). The residual values, economic useful lives and amortization methods are reviewed at the end of each reporting period and adjusted prospectively if necessary. Pursuant to IAS 36, an impairment loss is recognized on the carrying amount of an asset as soon as the estimated recoverable amount of the asset falls below the carrying amount. A reversal of impairment loss to amortized cost takes place if the reason for the impairment loss no longer exists.

Internally developed software

With the exception of capitalizable development costs, the cost of internally generated intangible assets is reflected in the income statement in the period in which the expenditure is incurred. Development costs for an individual project are recognized as an intangible asset if, and only if, the following criteria pursuant to IAS 38 are met:

- The newly developed software can be clearly identified.
- Completion of the software product is technically feasible.
- Management intends to complete and use the software product.
- It can be demonstrated that the software product will generate probable future economic benefits.
- Adequate technical, financial and other resources are available to complete the development and to use the software product.
- The expenditure attributable to the software product during its development can be measured reliably.

The costs directly attributable to the software product include the personnel expenses for employees involved in development, an appropriate portion of the corresponding overheads as well as costs for any external resources used.

Subsequent cost is only recognized in the cost of the asset or as a separate asset if it is probable that future economic benefits resulting from these will flow to the Group and the cost of the asset can be reliably measured.

Development costs that have already been expensed are not recognized in a subsequent period.

Capitalized software development costs are amortized on a straight-line basis over their estimated useful life (generally three years). Amortization begins when development is complete and the asset is available for use. The residual values, economic useful lives and amortization methods are reviewed at the end of each reporting period and adjusted prospectively if necessary. Pursuant to IAS 36, an impairment loss is recognized on the carrying amount of an asset as soon as the estimated recoverable amount of the asset falls below the carrying amount. A reversal of impairment loss to amortized cost takes place if the reason for the impairment loss no longer exists.

Development projects that have not yet been completed and the software from which is not yet in use are reviewed for impairment as of the end of the reporting period.

Internet domains

These are purchased intangible assets with an indefinite useful life that are not amortized. An indefinite useful life is applied, because internet domains are not subject to technical, technological or commercial obsolescence. The useful life of each individual domain is reviewed annually to determine whether the assessment of the indefinite useful life continues to be supportable. If not, the change in assessment of the useful life from indefinite to finite is made on a prospective basis.

Domains are tested for impairment if whenever there is an indication that a domain may be impaired. Additionally, once a year as of November 30, each individual domain is tested for impairment, either on the level of the separate asset, or on the level of the respective cash-generating unit. Pursuant to IAS 36, an impairment loss is recognized on the carrying amount of a domain as soon as the estimated fair value of the asset (less cost of disposal) falls below its carrying amount of the asset, or when the carrying amount of the respective cash-generating unit falls below value in use of the cash- generating unit. A reversal of impairment loss to amortized cost takes place if the reason for the impairment loss no longer exists.

Intangible assets acquired in business combinations

The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition.

The Group has currently capitalized several customer bases, which are amortized on a straight-line basis over the expected useful life of three to five years.

The Group has also acquired several domains in the course of acquisitions and recognized these at their respective fair value on the acquisition date. These are intangible assets with an indefinite useful life. See above under “Internet domains” for details on subsequent measurement.

Goodwill

Goodwill is not amortized systematically, but is subject to an impairment test pursuant to the rules in IAS 36 (impairment-only approach).

Goodwill is allocated to cash-generating units (CGUs) for the purpose of impairment testing. It is allocated to those CGUs or groups of CGUs which is expected to benefit from the combination out of which the goodwill arose. Each unit or group of units to which the goodwill has been thus allocated represents the lowest level in the Group at which goodwill can be monitored for internal management purposes.

Impairment testing of goodwill takes place once a year as of 30 November. Additionally, impairment testing is also carried out ad hoc if there are indications of potential impairment. The carrying amount of the goodwill is compared with its recoverable amount, i.e., with the higher of the two amounts of fair value less costs to sell and value in use. An impairment loss is expensed immediately and is not reversed in subsequent periods.

Recognition in group financial statements

kEUR	Goodwill	Software, licences and similar assets	Software from finance leases	Capitalized software development costs	Internet domains	Custom-er bases	Assets under constru-ction	Total
Cost as of January 1, 2017	**969**	**1,469**	**-**	**3,008**	**26,994**	**334**	**15**	**32,798**
Currency differences	-46	0	-	-	616	-16	-	554
Additions	-	34	56	913	0	-	45	1,048
Reclassifications	-	41	-	-	-	-	-41	-
Disposals	-	-83	-	-432	-	-	-	-515
as of December 31, 2017	923	1,461	56	3,489	27,610	318	19	33,876
Accumulated amortization and impairment as of January 1, 2017	**-**	**290**	**-**	**1,142**	**-**	**188**	**-**	**1,620**
Currency differences	-	0	-	-	22	-14	-	8
Additions (amortization)	-	354	5	1,011	-	74	-	1,444
Additions (impairment losses)	-	-	-	-	10,238	56	-	10,294
Disposals	-	-67	-	-425	-	-	-	-492
as of December 31, 2017	-	577	5	1,728	10,260	304	-	12,874
Carrying amount								
as of December 31, 2016	969	1,179	-	1,866	26,994	146	15	31,169
as of December 31, 2017	923	884	51	1,761	17,350	14	19	21,002

kEUR	Goodwill	Software, licences and similar assets	Software from finance leases	Capitalized software development costs	Internet domains	Custom-er bases	Assets under constru-ction	Total
Cost as of								
January 1, 2016	**902**	**169**	**-**	**2,973**	**27,385**	**332**	**698**	**32,459**
Currency differences	67	0	-	-	-455	2	-	-386
Additions	-	567	-	808	64	-	55	-1,494
Reclassifications	-	738	-	-	-	-	-738	-
Disposals	-	-5	-	-773	-	-	-	-778
as of December 31, 2016	969	1,469	-	3,008	26,994	334	15	32,789
Accumulated amortization and								
impairment as of January 1, 2016	**-**	**58**	**-**	**1,079**	**-**	**111**	**-**	**1,248**
Currency differences	-	0	-	-	-	2	-	2
Additions (amortization)	-	235	-	755	-	75	-	1,065
Additions (impairment losses)	-	-	-	-	-	-	-	-
Disposals	-	-3	-	-692	-	-	-	-695
as of December 31, 2016	-	290	-	1,142	-	188	-	1,620
Carrying amount								
as of December 31, 2015	902	111	-	1,894	27,385	221	698	31,211
as of December 31, 2016	969	1,179	-	1,866	26,994	146	15	31,169

Own work capitalized in the reporting period 2017 of EUR 379k (2016: EUR 549k) relates to capitalized development costs. This position includes in-progress development projects of EUR 231k as of the end of the reporting period (December 31, 2016: EUR 64k). Additionally, development costs of EUR 3,209k were recognized as expense in the fiscal year 2017 (2016: EUR 3,518k).

In 2017, following impairments were made:

- In the cash-generating unit (CGU) Switzerland, the domains kindertraum.ch and toys.ch, and the acquired customer bases were fully impaired. The impairment results from a management decision to focus business activities in Switzerland on one webshop. The impairment is based upon a so-called “triggering event” and amounts to EUR 1,816k, thereof EUR 1,760k for the domains and EUR 56k for the customer bases. The regular impairment test performed as of November 30, 2017, did not result in additional impairments for the CGU. The domain windeln.ch and the capitalized goodwill are not impacted by the impairment.
- Due to the focus on profitable growth and the corresponding lower growth expectations, the impairment test for the Feedo Group – comprising three CGUs – lead to an impairment expense of EUR 5,747K; thereof EUR 1,612k for the domain feedo.cz, EUR 1,318k for the domain feedo.sk, and EUR 2,817k for the domain feedo.pl. The impairment expense is based upon the value in use of the respective CGU. The respective values in use for the CGUs Czech Republic, Slovakia and Poland amount to EUR 4,666k, EUR 887k and EUR 1,030k. The pre-tax discount rates are between 14.5% and 16.8%.
- For Bebitus – comprising three CGUs – an impairment need was identified, leading to an impairment of the domain bebitus.fr. of EUR 2,731k. The reason for the impairment is the focus on profitable growth and the corresponding lower growth expectations. The impairment is based upon the CGU’s value in use. The value in use is EUR 1,757k, the discount rate is 15.2%. For the domains bebitus.com/es and bebitus.pt and the Bebitus goodwill, no impairment need was identified.

The amortization and impairments of intangible assets are recognized in the consolidated income statement as follows:

kEUR	2017	2016
Cost of sales from continuing operations	28	4
Selling and distribution expenses from continuing operations	11,435	733
Administrative expenses from continuing operations	275	204
Profit or loss from discontinued operations	-	124
Amortization and impairment of intangible assets	**11,738**	**1,065**

There are no restrictions on rights of disposal of intangible assets. None of the capitalized intangible assets were pledged as collateral for liabilities.

Significant accounting judgments and estimates

Intangible assets with definite useful life

At the end of each reporting period, the Group must assess whether there are indications that the carrying amount of an intangible asset item could be impaired. This assessment requires an estimate of the recoverable amount of the asset in question. The recoverable amount is the higher of fair value less costs to sell and value in use. To determine the value in use, the discounted future cash flows of the asset in question must be determined. Estimating the discounted future cash flows involves key assumptions such as in particular assumptions concerning the future selling prices and selling volumes, the costs and the discount rates. Although management assumes that the estimates of the relevant expected useful lives, the assumptions concerning the economic framework conditions and the development of the online mail order trade as well as the estimate of the discounted future cash flows are appropriate, a change in the assumptions or circumstances could necessitate a change in the analysis. This could result in additional impairment losses or reversals of impairment losses in the future if the trends identified by management reverse or the assumptions and estimates prove incorrect.

Intangible assets with indefinite useful life

Determining the value in use (goodwill) or fair value (domains) involves making adjustments and estimates regarding the forecast and discounting of future cash flows. The cash flow forecast on the basis of these estimates is influenced by factors such as the successful integration of acquired entities, volatility on the capital markets, interest rate developments, fluctuations in exchange rates and the expected economic development. The discounted cash flows are based on five-year forecasts that in turn are based on financial plans. The cash flows forecast takes into account past experience and is based on the management board's best estimate of future developments. Cash flows outside of the planning period are extrapolated using individual growth rates. The most important assumptions underlying the determination of fair value less costs to sell and value in use are the estimated growth rates, weighted average cost of capital, royalty rates, and tax rates. These estimates and the underlying method can have a material impact on the respective values and ultimately on the amount of a possible goodwill or domain impairment. Although management presumes that the assumptions used to calculate the recoverable amount are appropriate, any unforeseeable changes in these assumptions could lead to an impairment loss that could have a material negative impact on the financial performance and position.

Notes on the annual impairment tests

The cash-generating units Switzerland, Spain, France, Portugal, Czech Republic, Slovakia and Poland require impairment testing. The CGU Switzerland comprises a goodwill and the domains windeln.ch, kindertraum.ch and toys.ch. The Feedo Group bears the domains feedo.cz, feedo.sk and feedo.pl. Bebitus is established on the Spanish market and also has operations in France and Portugal. It bears the domains bebitus.com/es, bebitus.fr and bebitus.pt.

The carrying amounts of the intangible assets requiring impairment testing are summarized as follows (before write-down):

kEUR	**windeln.ch** (with CGU Switzerland)	**Feedo** (with CGUs Czech Republic, Slovakia, Poland)	**Bebitus** (with CGUs Spain, France, Portugal)
Carrying amount of the domains	123	14,477	11,121
Goodwill	503	-	420

The Group performed its annual impairment test as of November 30, 2017. In a first step, the fair value less costs of disposal determined, using an income approach valuation method. If the carrying amount of the asset exceed its fair value, or if other indicators for impairment exist, domains are tested on the level of their CGU.

For the test of domains on CGU-level and for the test of goodwills, the recoverable amount of the individual CGU or Groups of CGUs was determined by calculating the value in use, which is based on the projected cash flows of the webshops. The cash flow projections stem from the financial plans for the period of five years as approved by the management board and the supervisory board. As the management plans show that the CGUs have not yet reached their steady state as of the end of the period, the reconciliation to the steady state was planned using a two-year transition period with falling growth rates and increasing EBITDA margins. This state was extrapolated using a perpetual growth rate of 1.3%.

The key assumptions for the calculation of fair values or values in use are as follows:

	windeln.ch	**Feedo**	**Bebitus**
expected EBITDA margin	11.1%	7.0%	10.4%
average growth rate in the forecast period	7.8%	7.5%	8.4%
eternal growth rate	1.3%	1.3%	1.3%
discount rate	13.1%	14.5% - 16.8%	15.2% - 15.5%

The assumed growth rates are based on experience and past values as well as expectations concerning future market developments in the individual countries. In order to assume growth rates, overall market expectations were combined with expected market shares of the windeln.de Group, that eventually resulted in the expected market development of the individual countries. In addition to market growth, the expected EBITDA margin is a significant assumption; it is based on historic experience, economies of scale from the Group growth, and – in the cases of windeln.ch and Bebitus – on expected synergies from the integration of subsidiaries. The EBITDA margin of Feedo Group was estimated without anticpated synergies. The EBITDA margin is mainly affected by the operating contribution (gross margin reduced by fulfilment costs and marketing costs). The forecasts are reviewed for their budget adherence. Overruns or shortfalls of the actual values compared to the previously planned values are considered in the current planning process which is the basis for the latest impairment test.

The average growth rates in perpetual annuity correspond to the customary market assessments. For a proper value in use calculation for the individual domains, the projected revenue of the entities was also allocated by management to the respective countries.

The discount rates used are pre-tax interest rates and reflect the market-specific risks of the individual CGUs. The calculation of discount rates is derived from weighted average cost of capital (WACC) for the industry. When deriving the discount rates for the CGUs and domains, the respective country-specific risks were also taken into account in the calculation.

Based on the expectations and findings presented, all domains were tested on CGU level, even if the determination of the asset’s fair value did not trigger further testing.

The key assumptions for calculating values in use of in-progress development projects comprise the discount rate and the benefit generated. The discount rate equals the Group's weighted average cost of capital rate. In one case, the benefit generated was quantified as efficiency increases through savings in payment provider fees and a lower default rate. In another case, the benefit generated was quantified as additional revenue growth from the improved shop architecture.

Sensitivities

The annual impairment test, indicators for impairment were identified, leading to a decrease in intangible assets of EUR 10,294k. The results of that test are based chiefly on the management assumptions presented. To validate these results, the assumptions made were subjected to sensitivity analyses where the impact of a change in parameters on the values was calculated. The table below shows the impacts on the carrying amounts of intangible assets with indefinite useful lives und the hypothetical assumption of

- a reduction in the average growth rate for the extrapolation of cash flows outside of the planning period from 1.3% to 0.0% (1),
- a 1.0% increase in pre-tax interest rates (2), and
- a 1.0% reduction of the EBITDA margin (3)

	Increased impairment in case of		
kEUR	**Reduction in average growth rate (1)**	**Increase in pre-tax interest rates (2)**	**Reduction of EBITDA margin (3)**
Goodwill Bebitus	-	-	-
Goodwill windeln.ch	184	-	-
Domain windeln.ch	-	-	-
Domain bebitus.com/es	547	720	505
Domain bebitus.fr	496	503	733
Domain bebitus.pt	-	-	-
Domain feedo.cz	907	818	944
Domain feedo.sk	168	284	227
Domain feedo.pl	299	241	393
In-progress development projects	-	-	-

8.2. Fixed assets

Accounting policy

All fixed assets are stated at cost, net of any accumulated depreciation and/or accumulated impairment losses. The cost of fixed assets includes all expenses directly attributable to the acquisition that were incurred in making the asset ready for use. Purchase price reductions such as rebates, bonuses and trade discounts are deducted from the purchase price.

All non-capitalizable subsequent costs as well as maintenance and repair costs are recognized in income in the period incurred. Cost does not contain any borrowing costs, as no capitalizable borrowing costs pursuant to IAS 23 were incurred.

Prepayments for fixed assets not yet delivered or not yet accepted are recognized as assets under construction.

Fixed assets are depreciated to the residual value on a straight-line basis over the expected economic useful life. The following useful lives are expected:

- Furniture and fixtures 3 to 7 years
- Technical equipment 10 years
- Leased items of fixed assets expected lease term (2 to 6 years)
- Leasehold improvements expected lease term (3 years)

The residual values, economic useful lives and depreciation methods are reviewed at the end of each reporting period and adjusted prospectively if necessary. Pursuant to IAS 36, an impairment loss is recognized on the carrying amount of an asset as soon as the estimated recoverable amount of the asset falls below the carrying amount. A reversal of impairment loss to amortized cost takes place if the reason for the impairment loss no longer exists.

An item of fixed assets is derecognized either upon disposal or when no future economic benefits are expected from its use or disposal.

Gains and losses from the disposals of fixed assets are calculated as the difference between the net realizable values and the residual values of fixed assets and are recognized in other operating income and other operating expenses in the period in which the asset is derecognized.

Recognition in group financial statements

kEUR	Leasehold im-provements	Technical equipment and machinery	Furniture and fixtures	Furniture and fixture from finance leases	Assets under con-struction	Total
Cost as of						
January 1, 2017	**95**	**448**	**1,209**	**279**	**4**	**2,035**
Currency differences	-3	22	2	1	0	22
Additions	-	27	206	9	-	242
Reclassifications	-	40	-40	-	-	-
Disposals	-82	-85	-225	-93	-	-485
as of December 31, 2017	**10**	**452**	**1,152**	**196**	**4**	**1,814**
Accumulated depreciation as of						
January 1, 2017	**48**	**126**	**862**	**134**	**-**	**1,170**
Currency differences	-1	5	3	0	-	7
Additions	34	84	257	52	-	427
Reclassifications	-	-3	3	-	-	-
Disposals	-77	-79	-189	-70	-	-415
as of December 31, 2017	**4**	**133**	**936**	**116**	**-**	**1,189**
Carrying amount						
as of December 31, 2016	47	322	347	145	4	865
as of December 31, 2017	**6**	**319**	**216**	**80**	**4**	**625**

kEUR	Leasehold im-provements	Technical equipment and machinery	Furniture and fixtures	Furniture and fixture from finance leases	Assets under con-struction	Total
Cost as of						
January 1, 2016	**94**	**318**	**1,373**	**153**	**152**	**2,090**
Currency differences	1	0	-3	0	0	-2
Additions	12	413	317	143	8	893
Reclassifications	-	181	-25	-	-156	-
Disposals	-12	-464	-453	-17	-	-946
as of December 31, 2016	**95**	**448**	**1,209**	**279**	**4**	**2,035**
Accumulated depreciation as of						
January 1, 2016	**14**	**18**	**651**	**73**	**-**	**756**
Currency differences	1	0	-1	0	-	-
Additions	35	180	425	68	-	708
Reclassifications	-	-	-	-	-	-
Disposals	-2	-72	-213	-7	-	-294
as of December 31, 2016	**48**	**126**	**862**	**134**	**-**	**1,170**
Carrying amount						
as of December 31, 2015	80	300	722	80	152	1,334
as of December 31, 2016	**47**	**322**	**347**	**145**	**4**	**865**

Depreciation of fixed assets is recognized in the consolidated income statement as follows:

kEUR	2017	2016
Cost of sales from continuing operations	10	12
Selling and distribution expenses from continuing operations	249	393
Administrative expenses from continuing operations	168	176
Profit or loss from discontinued operations	-	127
Depreciation of fixed assets	**427**	**708**

As of December 31, 2017, there are no contractual commitments for the acquisition of fixed assets (December 31, 2016: EUR 22k).

There were no indications of impairment pursuant to IAS 36 on the date of preparing the financial statements.

8.3. Financial assets

<u>**Accounting policy**</u>

Definition of a financial instrument

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Initial recognition and measurement

Financial assets as defined by IAS 39 are broken down into the following categories, with the classification depending on the purpose for which the financial assets were acquired:

- Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading (hft) or classified by management as financial assets at fair value through profit or loss from the outset. A financial asset is classified under this category if it was principally purchased with the intention to resell it in the short term or if the financial asset was designated accordingly by management. Derivatives are also allocable to this category if they are not designated as a hedging instrument in effective hedging relationships. As of December 31, 2016, there were no financial assets in the “held for trading” category. In 2017 and in 2016, management did not make use of the option to classify financial assets as financial assets at fair value through profit or loss upon initial recognition.

- Loans and receivables

Loans and receivables (LaR) are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Group’s loans and receivables are presented in the statement of financial position under “Trade receivables” and “Other financial assets”. Trade receivables comprise amounts due from merchandise sold in the ordinary course of business.

- Held-to-maturity investments

Held-to-maturity investments (htm) are non-derivative financial assets with fixed or determinable payments and fixed terms to maturity which group management intends and is able to hold until maturity.

- Available-for-sale financial assets

Available-for-sale financial assets (afs) are non-derivative financial assets which were either classified under this category or were not classified to any of the other categories presented. Available-for-sale financial assets are reported in the statement of financial position under “Other financial assets”.

Management determines the classification of its financial assets upon initial recognition.

All financial assets are recognized initially at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss. Financial assets initially recorded at fair value through profit or loss are reported at fair value, and the related transaction costs are reported in profit or loss.

All purchases or sales of financial assets that require delivery of the assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognized on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement

Subsequent measurement of the financial assets depends on the classification.

- Financial assets at fair value through profit or loss

Financial assets at fair value through profit and loss are carried in the statement of financial position at fair value with changes in fair value recognized in financial income or financial expenses in the statement of comprehensive income.

- Loans and receivables

After initial recognition, such financial assets are subsequently measured at amortized cost using the effective interest rate method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization is included in financial income in the statement of comprehensive income. The losses from impairment are recognized in the statement of comprehensive income.

- Held-to-maturity investments

After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization is included in financial income in the statement of comprehensive income. Impairment losses are recognized in the statement of comprehensive income in financial expenses.

- Available-for-sale financial assets

Available-for-sale financial assets are measured at fair value after initial recognition. Unrealized gains or losses resulting from fair value measurement are recognized as other comprehensive income in the reserve for available-for-sale financial assets in the statement of comprehensive income.

Exchange differences from monetary assets denominated in foreign currency and classified as held for sale are recognized in profit or loss, while exchange differences from non-monetary assets in this category are recognized in other comprehensive income. When such an asset is derecognized, the cumulative gain or loss is reclassified to the financial result. If an asset is impaired, the cumulative loss is reclassified from the reserve for available-for-sale financial assets to financial expenses in the income statement.

Management evaluates whether the Group’s ability and intention to sell its available-for-sale financial assets in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management’s intention to do so in the foreseeable future significantly changes, management may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and management has the intent and ability to hold these assets for the foreseeable future or until maturity. Reclassification to the “held to maturity” category is permitted only when management has the ability and intention to hold the financial asset accordingly.

Impairment of financial assets

The carrying amounts of financial assets not measured at fair value through profit or loss are reviewed at the end of each reporting period to determine whether there is any objective evidence of impairment. For example, objective evidence can include significant financial difficulty on the part of the debtor, breach of contract such as default or delinquency in interest or principal payments, increased probability that the debtor will enter bankruptcy or other financial reorganization, the disappearance of an active market for the financial asset as well as significant changes in the technological, economic or legal environment. In the case of equity instruments categorized as available for sale, objective evidence of impairment would be a significant or prolonged decline in fair value. A decline of at least 20% of cost is considered “significant”, while “prolonged” is defined as a period lasting more than six months.

- Financial assets measured at amortized cost

The amount of the impairment loss on a financial asset measured at amortized cost is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the financial asset’s original effective interest rate. The impairment loss is recorded as an expense. If the impairment loss decreases in subsequent periods objectively as a result of events that have occurred after the date of recognition of the impairment loss, the impairment loss is reversed accordingly through profit or loss. The reversal of the impairment loss is made to no higher than amortized cost.

The Group uses the maturity bands of the age structure to calculate the impairment of trade receivables. Impairment charges are recognized for past due maturity bands using a percentage derived from past experience that depends on the payment method used. Impairment losses are recognized in profit or loss.

- Available-for-sale financial assets

If the decrease in fair value of an available-for-sale financial asset was recognized directly in other comprehensive income (reported as a cumulative figure in equity) in the past, these impairment losses are derecognized from equity as soon as there is objective evidence of impairment. The amount of the impairment loss corresponds to the difference between the acquisition costs (less any amounts repaid or amortized) and the current fair value reduced by any impairment losses recognized on the financial asset in profit and loss at an earlier date. Impairment losses recognized on equity instruments in profit and loss at an earlier date are not reversed through profit or loss. Any increase in the fair value after recognition of an impairment loss is recognized in other comprehensive income. Reversals of impairment losses on debt instruments that have objectively occurred after the date of recognition of the impairment loss are recognized in profit or loss.

Derecognition of financial assets

Financial assets are derecognized if the rights to cash flows from the financial assets have expired or if the right to receive the cash flows has been transferred to third parties and the Group has substantially transferred all risks and rewards incidental to ownership. When a financial asset is derecognized in full, the difference between the carrying amount and the total of the consideration received or receivable and all cumulative gains or losses recognized in other comprehensive income and accumulated in equity must be recognized in profit or loss.

Receivables and any related impairment losses are derecognized if they are deemed uncollectible. If a derecognized receivable is later deemed collectible again due to an event that occurred after derecognition, the corresponding amount is recognized directly in other operating income.

The Group sells trade receivables from the “purchase on account” payment method to various service providers. Additionally, substandard trade receivables were sold to third parties in the prior year. Financial assets sold in this way are derecognized from the consolidated statement of financial position on the date of sale provided that substantially all risks and rewards have been transferred to the purchaser. If substantially all risks and rewards are neither transferred nor retained, the financial assets are derecognized from the consolidated statement of financial position on the date of sale only if it is certain that the purchaser has obtained power of disposal over the financial assets. If substantially all risks and rewards remain within the Group, the financial assets continue to be reported in the statement of financial position as collateral for any liability recognized.

Recognition in group financial statements

Trade receivables

As of December 31, 2017, trade receivables exist mainly from customers of windeln.de SE and MyMedia s.r.o. As of December 31, 2016, additional trade receivables existed from customers of Bebitus Retail S.L.U. All trade receivables are due in less than one year and are not subject to interest. Receivables are generally due for immediate repayment. A payment term of 14 days is granted for goods purchased on account. There are no restrictions on rights of disposal.

An analysis of the maturity structure of trade receivables is as follows:

			Past due but not impaired			
kEUR	Cost	Not past due and not impaired	< 30 days	30 - 90 days	> 90 days	Past due and impaired
December 31, 2017	5,044	610	1,161	151	-	3,122
December 31, 2016	4,440	933	405	388	380	2,334

As of December 31, 2017, impairment charges of EUR 877k were recognized due to default risks (December 31, 2016: EUR 1,778k). With regards to receivables that are not past due and not impaired, there are no indications that the debtors will not settle their payment obligations.

The account for impairment losses developed as follows:

kEUR	2017	2016
As of January 1	1,932	505
Addition	877	1,778
Utilization	63	342
Reversal	-	9
As of December 31	**2,746**	**1,932**

The write-downs due to uncollectible receivables amount to EUR 433k in the 2017 reporting period (2016: EUR 342k).

On a regular basis, receivables not yet past due and not yet impaired are sold to third parties, leading to derecognition from the statement of financial position. In the course of selling these receivables, the Group retains immaterial duties; these include first and foremost the provision of settlement services in relation to the merchandise sold, such as responding to general customer inquiries and processing returns and complaints. Regardless of the sale of receivables, risks in connection with these duties remaining with the Group are taken into consideration in the consolidated financial statements.

In the prior year, past due and impaired receivables were sold to third parties. In the year 2017, no such transactions occurred. Since mid of 2016, overdue receivables are collected by a collection service provider. The impaired receivable remains in the Group's books until the receivable is either collected or finally deemed irrecoverable and derecognized from the Group's books.

Other financial assets

kEUR	December 31, 2017	December 31, 2016
Time deposits	-	2,500
Compensation from seller guarantees	576	591
Restricted cash	226	10
Lease and other deposits	64	45
Other non-current financial assets	**866**	**3,146**
Accrued advertising contributions and supplier rebates	4,275	3,131
Time deposits	2,500	1,875
Compensation from seller guarantees	-	1,484
Creditors with debit balances	267	418
Lease and other deposits	635	422
Sundry	106	131
Other current financial assets	**7,783**	**7,330**
Other financial assets	**8,649**	**10,476**

Compensation from seller guarantees stems from a review process of the issued seller guarantees in the course of which windeln.de SE and the sellers of the Feedo Group agreed on a compensation payment. See details in note 6.

Accrued advertising contributions and supplier rebates relate to claims from suppliers due to advertising and marketing campaigns carried out in the reporting period as well as bonuses dependent on purchase volumes.

Creditors with debit balances relate to refund claims from suppliers and service providers, e.g., due to overpayment, insufficient deliveries etc.

In 2017, the Czech National Bank gave up its exchange rate peg between Czech Koruna and Euro. In order hedge the resulting foreign exchange risks, the Group entered into two foreign exchange forward agreements that are accounted for as a Fair Value Hedges.

- A foreign exchange forward agreement entered into in Q1 2017 was fully settled in 2017 and incurred foreign exchange gains of EUR 21k, recognized within the financial result.
- A foreign exchange forward agreement entered into in Q4 2017 incurred unrealized foreign exchange losses of EUR 0k, recognized within the financial result. The agreement comprises 18 separate tranches with maturity dates between January 5 and June 20, 2018.

Additional information on financial instruments

The following table shows the carrying amounts and fair value of all financial assets and the allocation of financial statement positions to the measurement categories in accordance with IAS 39:

kEUR	Measurement category pursuant to IAS 39	Carrying amount as of December 31, 2017	Amount recognized in the statement of financial position in accordance with IAS 39: Amortized cost	Fair value in equity	Fair value through profit or loss	Fair value as of December 31, 2017
Trade receivables	LaR	2,298	2,298	-	-	2,298
Other financial assets	LaR / afs / hft / htm	8,649	8,649	-	-	8,649
Cash and cash equivalents	LaR	26,465	26,465	-	-	26,465
Aggregated by measurement category in accordance with IAS 39						
Available for sale	afs	14	14	-	-	14
Held for trading	hft	-	-	-	-	-
Loans and receivables	LaR	34,648	34,648	-	-	34,648
Held to maturity	htm	2,750	2,750	-	-	2,750

kEUR	Measurement category pursuant to IAS 39	Carrying amount as of December 31, 2016	Amount recognized in the statement of financial position in accordance with IAS 39: Amortized cost	Fair value in equity	Fair value through profit or loss	Fair value as of December 31, 2016
Trade receivables	LaR	2,508	2,508	-	-	2,508
Other financial assets	LaR / afs / htm	10,476	10,476	-	-	10,476
Cash and cash equivalents	LaR	51,302	51,302	-	-	51,302
Aggregated by measurement category in accordance with IAS 39						
Available for sale	afs	14	14	-	-	14
Held for trading	hft	-	-	-	-	-
Loans and receivables	LaR	59,165	59,165	-	-	59,165
Held to maturity	htm	5,107	5,107	-	-	5,107

Due to the short-term maturities of cash and cash equivalents, trade receivables and other current financial assets, the fair values less impairment for these items are assumed to be equal to the carrying amounts.

Other current financial assets include cooperative shares of EUR 14k (December 31, 2016: EUR 14k). Those assets are allocated to the “available for sale” category, but are recognized at cost because they cannot be measured.

The following tables present the net gains/losses from financial assets per financial year:

kEUR	Interest income	Through profit or loss from subsequent measurement: At fair value	Currency translation	Allowance	In equity from subsequent measurement	Through profit or loss from disposal	Net gain/loss
Available for sale (afs)	0	-	-	-	-	-	0
Held for trading (hft)	-	21	-	-	-	-	21
Loans and receivables (LaR)	17	-	-206	-813	-	-433	-1,435
Held to maturity (htm)	6	-	-	-	-	-	6
Total for financial year 2017	**23**	**21**	**-206**	**-813**	**-**	**-433**	**-1,408**

kEUR	Interest income	Through profit or loss from subsequent measurement: At fair value	Currency translation	Allowance	In equity from subsequent measurement	Through profit or loss from disposal	Net gain/loss
Available for sale (afs)	0	-	-	-	-	-	0
Held for trading (hft)	-	-	-	-	-	-	-
Loans and receivables (LaR)	42	-	78	-1,441	-	-337	-1,658
Held to maturity (htm)	0	-	-	-	-	-	0
Total for financial year 2016	**42**	**-**	**78**	**-1,441**	**-**	**-337**	**-1,658**

Significant accounting judgments and estimates

The portfolio-based allowance for trade receivables requires a definition of the maturity bands of the age structure, which is an accounting estimate. The applied write-down percentage is estimated based upon historical default quotas.

8.4. Non-financial assets

kEUR	December 31, 2017	December 31, 2016
Prepaid expenses	206	234
Prepayment for share-based payments	-	96
Non-current non-financial assets	**206**	**330**
VAT receivables	2,330	1,973
Prepaid expenses	526	456
Right to recover possession of goods	213	362
Prepayment for share-based payments	179	192
Sundry	18	7
Current non-financial assets	**3,266**	**2,990**
Non-financial assets	**3,472**	**3,320**

The prepayment for share-based payment results from the acquisition of the Feedo Group. See note 6.

The right to recover possession of goods concerns the estimated returns after the end of the reporting period. See note 9.1.

The items contained in prepaid expenses involve payments made for services that will not be provided until after the end of the reporting period, as well as prepaid transaction fees for future equity transactions. See note 8.7.

As of December 31, 2017 and December 31, 2016, the Group did not hold any securities.

8.5. Inventories and prepayments

Accounting policy

Purchased merchandise reported as inventories are measured at the lower of cost and net realizable value in accordance with IAS 2. The costs of purchase are calculated using the average purchase costs and comprise the acquisition cost plus any directly attributable incidental purchase costs incurred less purchase price reductions; they do not contain any borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale. Appropriate allowance is made for inventory risks associated with slow-moving stocks, reduced salability or similar matters. If the reasons for impairment losses recognized in earlier periods no longer exist, reversals of the impairment losses are recognized up to the amount of the original cost.

Recognition in group financial statements

kEUR	December 31, 2017	December 31, 2016
Gross merchandise	20,364	23,480
Impairment of merchandise	-1,190	-1,835
Inventories	**19,174**	**21,645**

Inventories are impaired due to a decline in net realizable values and to slow-moving stock. Inventories of EUR 9,993k (December 31, 2016: EUR 14,230k) were pledged as collateral to secure credit lines.

All prepayments were made for upcoming deliveries of merchandise, they amount to EUR 332k as of December 31, 2017 (December 31, 2016: EUR 374k).

Significant accounting judgments and estimates

Management assesses the recoverability of inventories at the end of each reporting period. Among other things, this involves assumptions regarding the future realizable selling price and the necessary selling and distribution expenses.

8.6. Cash and cash equivalents

Accounting policy

Cash and cash equivalents include cash, demand deposits and other highly liquid current financial assets with an original term to maturity of no more than three months, that are subject to insignificant risks of change in value. They are measured at nominal value. Any interest incurred on debit bank balances are reported in administrative expenses, see note 9.2.

Utilized overdraft facilities are reported as liabilities to banks under “Current financial liabilities” in the statement of financial position. Time deposits qualify as cash equivalents if they can be cancelled within three months, and if they are subject to an insignificant risk of change in value. Otherwise, they are recognized under “other current financial assets” or “other non-current financial assets.

If access to cash positions held by the Group is restricted and the restriction expires within three months, those cash positions are recognized within cash. Otherwise, they are recognized as restricted cash within “other current financial assets” or “other non-current financial assets”.

Recognition in group financial statements

kEUR	December 31, 2017	December 31, 2016
Cash at banks	26,445	50,561
Time deposits	-	625
Restricted cash	-	97
Cash on hand	20	19
Cash and cash equivalents	**26,465**	**51,302**

Most of the bank balances are interest free or earn low levels of interest. Bank balances subject to interest bear floating interest rates for demand deposits.

Further cash deposits are held with banks, namely time deposits and restricted cash that are not recognized as cash and cash equivalents, but as other financial assets due to their maturity. The total cash position and bank deposits breaks down as follows:

kEUR	December 31, 2017	December 31, 2016
Cash and cash equivalents	26,465	51,302
Current time deposits (<3 months)	625	-
Current time deposits (3-12 months)	1,875	1,875
Non-current time deposits (>12 months)	-	2,500
Current and non-current restricted cash	250	10
Total cash available	**29,215**	**55,687**

Notes on the statement of cash flows

The statement of cash flows was prepared in accordance with IAS 7 Statement of Cash Flows and shows how the Group’s cash and cash equivalents have changed over the reporting period as a result of cash received and paid.

In accordance with IAS 7, the cash flows from operating, investing and financing activities are divided according to their origin and utilization. The cash inflows and outflows from operating activities are derived indirectly on the basis of the Group’s net loss for the year. Cash inflows and outflows from investing and financing activities are derived directly. The amount of cash in the statement of cash flows is equal to the value of cash and cash equivalents reported in the statement of financial position.

The negative cash flow from operating activities is attributable to the net loss for the year adjusted for non-cash effects. The main non-cash effects in 2017 are as follows:

- Expense of EUR 8,128k for share-based payments that will be or have been settled in shares or has not yet been settled in cash
- Depreciation, amortization and impairment of fixed and intangible assets in the amount of EUR 12,165k

The negative cash flow from investing activities is primarily attributable to payments for the purchase of tangible and intangible assets in the amount of EUR 1,358k and payments to the sellers of acquired subsidiaries of EUR 787k. A time deposits that was entered into in the prior year, was partially redeemed, leading to a cash inflow of EUR 1,875k.

Cash flows from financing activities mainly include proceeds from new loans and redemptions of financial liabilities. The reconciliation of cash flows from financing activities to the development of financial liabilities breaks down as follows:

kEUR	Money market loans	Liabilities from finance leases	Other financial debt	Total financial liabilities
As at January 1, 2016	**-**	**85**	**29**	**114**
Currency differences (non-cash)	-	0	0	0
Additions (cash-effective)	-	-	-	-
Additions (non-cash)	-	123	-	123
Repayment (cash-effective)	-	-55	-10	-65
Other non-cash changes (interest)	-	11	-	11
As at December 31, 2016	**-**	**164**	**19**	**183**
Currency differences (non-cash)	-	0	2	2
Additions (cash-effective)	3,500	-	19	3,519
Additions (non-cash)	-	22	-	22
Repayment (cash-effective)	-	-66	-12	-78
Other non-cash changes (interest, derecognition)	-	-14	-	-14
As at December 31, 2017	**3,500**	**106**	**28**	**3,634**

8.7. Equity

Accounting policy

Treasury shares

Own equity instruments that are reacquired (treasury shares) are recognized at cost and deducted from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognized in the share premium.

Accounting for transaction costs in equity transactions

Pursuant to IAS 32.37, the directly attributable costs in connection with acquiring equity must be accounted for as a deduction from the additional equity (reduction of the share premium), taking any tax effects into account (IAS 12.61A(b)). If the transaction costs incurred are tax deductible and thus reduce the assessment base, the transaction costs to be taken into account in equity are reduced by the tax saving, and a corresponding tax receivable is recognized if requirements of IAS 12 are met. Pursuant to IAS 32.37, only external costs that are directly attributable to the equity transaction and that otherwise would have been avoided are recognized directly in equity. Indirect costs, for example internal administrative expenses and pro rata personnel expenses, do not fall under directly attributable transaction costs and are thus expensed as incurred.

Prepaid transaction fees are accrued as non-financial asset, and reclassified to equity as of the date of the equity transaction.

Recognition in group financial statements

Capital increases

In connection with subsequent purchase price payments, two capital increases were carried out in 2017. 312,438 shares with a nominal value of EUR 312k were issued to some of the sellers of the Feedo Group. As of the date of issuance, the shares had a value of EUR 1,034k. Another 1,842,012 shares with a nominal value of EUR 1,842k were issued to some of the sellers of Bebitus. As of the date of issuance, the shares had a value of EUR 5,913k. Details on the development of subsequent purchase prices are outlined in note 6.

After the above-mentioned transactions, Authorized Capital 2016 and Conditional Capital 2016/I amount to EUR 9,619,346 and EUR 7,997,804 as of December 31, 2017 (December 31, 2016: EUR 11,773,796 and EUR 7,997,804). On its meeting held on June 2, 2017, the Annual General Meeting decided to reduce Conditional Capital 2016/II by EUR 1,444,245 to now EUR 555,206. The previous authorization to grant subscription rights under the Long Term Incentive Program 2015-2017 was revoked in the amount of 1,444,245 not yet granted subscription rights under this authorization.

Simultaneously, a Conditional Capital 2017 of EUR 1,200,000 was approved. Management board and supervisory board are authorized to grant 1,200,000 subscription rights for up to 1,200,000 non-par bearer shares of the Company under the regulations of the newly created Long Term Incentive Program 2018-2021.

Issued capital

As of December 31, 2017, the issued capital of the Group parent amounts to EUR 28,472k (December 31, 2016: EUR 26,318k). It has been fully paid in and comprises 28,472,420 no-par value bearer shares.

Treasury shares

By means of a supervisory board resolution on May 13, 2016, the Management Board was authorized to purchase up to 70,000 own windeln.de shares in order to satisfy subsequent purchases prices from acquisitions. In the financial year 2016, a total of 64,683 shares was purchased in several tranches. In the financial year 2017, all of the treasury shares were transferred to one of the sellers of Bebitus. As of the transfer date, the 64,683 treasury shares had a value of EUR 220k. Details on the development of subsequent purchase prices are outlined in note 6.

Share premium

As of December 31, 2017, the share premium amounts to EUR 168,486k (December 31, 2016: EUR 159,993k) and breaks down as follows:

kEUR	December 31, 2017	December 31, 2016
Premium from financing rounds and/or IPO	165,341	165,341
Capital increases from company funds	-25,232	-25,232
Contributions in kind	4,465	3,466
Costs of equity transactions	-5,510	-5,464
Share-based payments	29,384	21,844
Premium from exercise of stock options	38	38
Share premium	**168,486**	**159,993**

Accumulated loss

The accumulated loss results from losses carried forward from prior periods and the result for the current reporting period.

8.8. Employee benefits

8.8.1. Share-based payments

Share-based compensation as component of employee remuneration

Accounting policy

Selected executives and members of the management board and/or of local management receive share-based payment for their work in the form of equity or cash. Pursuant to IFRS 2, equity-settled share-based payment transactions are measured once at the fair value on the grant date, while cash-settled share-based payment transactions are measured at the fair value at the end of the reporting period. The Group uses the Monte Carlo simulation for this purpose. The fair value is recognized in profit or loss over the period in which the service is provided by the eligible persons, referred to as the vesting period, by recognizing a corresponding item in the share premium for equity-settled share-based payment transactions and by recognizing a corresponding liability for cash-settled share-based payment transactions. In the case of cash-settled share-based payment transactions, the liability is remeasured at the end of each reporting period and at the date of settlement until the liability is settled with changes in fair value recognized in the income statement.

To motivate and retain key employees, windeln.de SE introduced a total of three programs relating to share-based payment obligations. This gives the employees the opportunity to participate in future increases in the Group's business value. The programs are described below.

Description of VSOP 1 and 2

As part of the Virtual Stock Option Program (VSOP 1), cash-settled share-based payment arrangements were made with employees of the Group up to and including 2014. The beneficiaries obtain vested rights to the options granted in 48 sub-tranches over a period of four years from the allocation date determined by the Company. In the event of an exit, the stock options of four employees immediately qualify as accumulated in full, provided that the beneficiary is in a current service or employment relationship with the Company. Sub-tranches not yet accumulated in full are forfeited if the service or employment relationship ends before the exit event. Fully accumulated options are forfeited if the service or employment relationship ends due to termination or dismissal for due cause before the exit event. The options lapse no later than 15 years after the allocation date. Amongst others, a stock exchange listing of the company (IPO exit) qualifies as an exit event.

The payment entitlement of the option holder is calculated for each option granted as the difference between the exit proceeds per share and the basic price for the option.

In the first quarter of 2015, all existing share-based payment arrangements were modified on account of the imminent IPO. Pursuant to IFRS 2, the modified agreements will subsequently be treated as equity-settled share-based payments. The incremental fair value of all modified options amounts to EUR 15.064 (EUR 0.02 per option) on the modification date. The market input parameters were selected unchanged both before and after modification.

In addition to the share-based payment arrangements already in existence as of December 31, 2014, further share-based payment arrangements (VSOP 2) were made with employees of the Group in the first quarter of 2015. The beneficiaries obtain vested rights to the options granted in 48 sub-tranches over a period of four years from the allocation date determined by the Company. By analogy to the existing modified agreements, the stock options are treated as equity-settled share-based payments.

Description of VSOP 3

In the second quarter of 2015, the Company launched a new stock option program (VSOP 3) and entered into corresponding agreements with employees of windeln.de SE. The beneficiaries obtain vested rights to the options granted in 48 sub-tranches over a period of four years from the allocation date determined by the Company. Provided that specified revenue growth targets are met for the Group (performance condition), the stock options will be settled in cash after the end of the four-year vesting period. If the specified revenue growth targets are not met, no payment will be made. These stock options are remeasured at the end of each reporting period in accordance with IFRS 2.

Description of LTIP – SO and RSU

In 2015, the Company launched a long-term incentive plan (LTIP 2015-2017) and from 2015 to 2017, entered into corresponding agreements with employees of the Group. As part of this plan, both equity-settled stock options (SO) and restricted stock units (RSU) will be issued. The RSUs entitle holders to purchase shares in windeln.de SE at the respective applicable share price without payment of a strike price by the beneficiary. After a six-month cliff period from an allocation date set by the Company, the participants have obtained a vested right to 6/48 of the options granted; thereafter they obtain a vested right to the options in 42 further sub-tranches over a period of three and a half years. Provided that specified revenue growth targets are met for the Group (performance condition), the stock options can be exercised after the end of the four-year vesting period. If the specified revenue growth targets are not met, the stock options cannot be exercised. There is no performance condition for the RSUs. The Company has an option with respect to settlement of the RSUs. Because the Company provides for settlement in the form of real equity instruments, the contract component is recognized as equity-settled share-based payment. Both for the stock options and the RSUs, the number of shares to be issued is capped. In accordance with IFRS 2, both the stock options and the RSUs are measured only on the date of issue or grant date.

Measurement of the programs

The same measurement method is used for all programs, and the fair value of the stock options and restricted stock units is determined using a Monte Carlo simulation.

The Monte Carlo simulation involves simulating the stochastic process, which describes the development of the market price, through a large number of repetitions. The process takes the form of a geometric Brownian motion, for which the current share price is the initial value. The volatility was determined as the historical volatility (over a period similar to the life of the options) of comparable public companies (peer group) over the respective remaining term. The expected volatility taken into account reflects the assumption that the historical volatility is indicative of future trends, and may also not necessarily be the actual outcome. The expected dividend yield is based on market assessments for the amount of the expected dividend of the windeln.de share. The risk-free interest rates were determined based on the interest on German government bonds over a similar period. The drift corresponds to the risk-free interest rate. The random component comprises a Wiener process, which can be simulated with the help of random numbers. Once a large number of paths of the geometric Brownian motion have been simulated, it is possible to make reliable statements about the probability of interesting parameters. This applies in particular to the value of the option, i.e., the size max(share price on exercise date - exercise price,0). Asymptotically (with a sufficiently large number of repetitions), the expected value for this parameter based on the distribution simulated with Monte Carlo corresponds to the value using the Black-Scholes-Merton formula. However, with Monte Carlo it is possible to make many more statements; in this way a statement concerning probability can be made for each possible value of the option. In this way, in particular uncertainties in the projection can be estimated better.

The following input parameters were used in the Monte Carlo simulation in 2016, for VSOP 1-2, LTIP-RSU and LTIP-SO at the grant date, and for VSOP 3 at the reporting date December 31, 2017:

	VSOP 1 - 2	VSOP 3	LTIP - RSU	LTIP - SO
Expected volatility (%)	37.46% - 40.80%	32.44% - 33.18%	38.14% - 43.93%	38.28% - 41.91%
Risk-free interest rate (%)	0.00%	0.00%	0.00%	0.00%
Expected dividend yield (%)	0.00%	0.00%	0.00%	0.00%
Expected life of options (years)	0.25 - 4	0.75 - 1.58	4	4 - 4.5
Average share price on the measurement date (in EUR)	13.25	1.92	3.19 - 14.69	3.19 - 10.63

The subscription rights recognized in equity changed as follows:

	VSOP 1 - 2	LTIP - RSU	LTIP - SO
Outstanding at the beginning of the reporting period (January 1, 2017)	**163,676**	**35,064**	**71,338**
Expired during the reporting period	-	-	-
Forfeited during the reporting period	-	2,515	7,545
Exercised during the reporting period	-	-	-
Granted during the reporting period	13,990	44,589	117,677
Outstanding at the end of the reporting period (December 31, 2017)	**177,666**	**77,138**	**181,470**
Am Ende der Berichtsperiode ausübbar (31. Dezember 2017)	177,666	77,138	181,470

The weighted average remaining contractual life for the stock options outstanding as of December 31, 2017, is 0.84 years. The weighted average fair value of the stock options granted in 2017 was EUR 1.96. The exercise price range for the equity-settled stock options outstanding as of December 31, 2017, is EUR 3.22 to EUR 18.50, if an exercise price has been set.

Presentation of the impact on profit or loss

The expense recognized in 2017 from these share-based payment obligations amounts to EUR 415k (2016: EUR 551k), with an income of EUR 2k relating to cash-settled share-based payments (2016: income of EUR 67k) and an expense of EUR 417k (2016: expense of EUR 618k) relating to equity-settled share-based payment.

As of December 31, 2017, the carrying amount of the liability from these cash-settled share-based payment obligations is EUR - (December 31, 2016: EUR 2k). The obligation is recognized under non-current liabilities.

As of December 31, 2017, a figure of EUR 12,266k is reported in the share premium from these equity-settled share-based payment obligations (December 31, 2016: EUR 11,849k).

Significant accounting judgments and estimates

The Group measures the cost of equity-settled or cash-settled share-based payment to executives and management board members and/or local management at fair value on the grant date in the case of equity-settled share-based payment transactions and at fair value at the end of the reporting period in the case of cash-settled share-based payment transactions. To estimate fair value for share-based payment obligations, the most appropriate valuation method must be determined. The valuation method chosen depends on the conditions of granting. This estimate also requires determination of the most appropriate inputs to the valuation model, including in particular the expected life of the stock option, volatility and risk-free interest rate and making assumptions about them.

Share-based payment commitments in the course of acquisitions

In addition, as part of the acquisition of Feedo Group, shares with contingent return obligations were issued that fall within the scope of IFRS 2. Parts of contingent considerations in connection with the acquisition of Feedo Group and Bebitus also fall within the scope of IFRS 2 and/or IAS 19. See note 6 for further details.

8.8.2. Pension obligations

The Group has defined benefit plans for its employees in Switzerland. The pension plan grants benefits that go beyond the statutory minimum benefits under the Swiss Law on Occupational Pension Plans (BVG). windeln.ch AG is aligned with the Vita joint foundation for occupational pensions. The foundation is a separate legal entity and is responsible for managing the pension plan. windeln.de is in subordinate liability for the fulfilment of the pension plan, which results in a classification as defined benefit plan.

As of December 31, 2016, the net liability of the defined benefit obligation amounts to EUR 126k; the accounting measurement is described in the Annual Report 2016. Due to the closure of the Swiss office in 2017, the number of employees strongly decreased, and, as a result, the subordinate liability for the fulfilment of the pension plan ceases for the former employees. Therefore, the net liability of the defined benefit obligation was reduced to EUR 4k as of December 31, 2017.

By the end of the fiscal year 2018, no staff will be employed in Switzerland.

8.8.3. Termination benefits and other post-employment benefits

Accounting policy

Termination benefits are employee benefits payable as a result of either a group entity's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment. The Group recognizes severance payments if it is demonstrably obliged to terminate the employment of current employees in accordance with a detailed formal plan that cannot be withdrawn or if it demonstrably must make severance payments upon employees voluntarily terminating employment. Benefits that fall due more than 12 months after the end of the reporting period are discounted to their present value.

When employees of pannolini.it S.r.l. leave the Group, regardless of the reason, they receive a statutory severance payment. This must be recognized as a severance provision in accordance with IAS 19. The provision must be recognized at the value assumed for the future severance payment, discounted at the capital market rate of a high-quality fixed-interest bond. The calculation incorporates assumptions on invalidity rates, mortality rates, average pension age, annual salary increases as well as duration of the employment relationship. The average age of the employees and their gender also influence the amount of the provision. The projected unit credit method was used to calculate the provision.

Recognition in group financial statements

As of December 31, 2017, the severance provision amounts to EUR 47k (December 31, 2016: EUR 25k), recognized within "defined benefit obligations and other accrued employee benefits" on the consolidated statement of financial position.

8.8.4. Bonus plans

Accounting policy

For bonus payments after the end of the reporting period for the prior reporting period, a provision is recognized in the consolidated financial statements and the corresponding expense is reported under personnel expenses. The amount of the provision is calculated individually for each employee for whom either a contractual obligation to pay a bonus exists or for whom a constructive obligation exists based on past company practice.

Recognition in group financial statements

Bonus liabilities are recognized within other current financial liabilities. See quantitative disclosures note 8.10.

8.9. Provisions

Accounting policy

According to IAS 37, provisions should be recognized if all of the following criteria are met:

- The Group has a present legal or constructive obligation.
- The obligation is the result of a past event.
- It is probable (more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation.
- A reliable estimate can be made of the amount of the provision.

Provisions are not recognized for future operating losses.

A best estimate is made of the amount of the provisions taking into consideration all the discernible risks arising from the obligation. This refers to the amount that is most likely needed to settle the liability. A cash outflow from current provisions is expected in the following financial year. Non-current provisions with a term of more than one year are discounted to the end of the reporting period. A pre-tax discount rate is used that reflects current market assessments of the time value of money and risks specific to the given obligation.

Increases in provisions purely relating to additions to reflect the passage of time are posted to the statement of comprehensive income as financial expenses.

If there are a number of similar obligations, the likelihood of an outflow of resources is estimated for the group of obligations. Provisions are recognized even if the likelihood of an outflow of resources in connection with an individual obligation contained in this group is small.

Recognition in group financial statements

kEUR	Current provisions	Non-current provisions: Share-based payment	Non-current provisions: Pension and termination benefits	Non-current provisions: Other	Total
As of January 1, 2017 R	**424**	**2**	**151**	**86**	**663**
Addition	254	-	35	-	289
Reversal	-93	-2	-117	-14	-226
Utilization	-270	-	-13	-67	-350
Currency differences	-	-	-5	-	-5
As of December 31, 2017	**315**	**-**	**51**	**5**	**371**

With the adoption of IFRS 15, obligations from loyalty bonuses are not recognized as provisions. See note 3.4.

As of December 31, 2017, current provisions mainly consist of accrued onerous expenses for a closed warehouse location.

Other financial obligations

Obligations

As of December 31, 2017, future obligations from goods ordered but not yet delivered amounted to EUR 5,226k (December 31, 2016: EUR 14,624k).

Litigation, guarantees and contingent liabilities

As of December 31, 2017, there are no legal disputes. As of December 31, 2017, and December 31, 2016, no guarantees have been provided, and there were no contingent liabilities.

Significant accounting judgments and estimates

Provisions are determined on the basis of estimates to a large extent. As a result, it can be necessary to adjust the amount of a provision on account of new developments and changes to the estimates. Changes in estimates and assumptions over time can have a material impact on future earnings. It is possible that the Group may incur further expenses in addition to the provisions recognized which may have a material impact on the financial performance and position of the Group.

8.10. Financial liabilities

Accounting policy

Initial recognition and measurement

Financial liabilities generally give rise to an entitlement to the receipt of cash or another financial asset and are classified as follows pursuant to IAS 39:

- Financial liabilities at fair value through profit or loss

Financial liabilities at fair value (FLAFV) through profit or loss include financial liabilities held for trading and other financial liabilities designated upon initial recognition as of fair value through profit or loss. A financial liability is allocated to this category if it was entered into with the basic intention to settle the liability in the short term. Derivatives are also allocable to this category if they are not designated as a hedging instrument in hedging relationships pursuant to IAS 39. Management has so far not made any use of the option to allocate financial liabilities to this category upon initial recognition.

- Financial liabilities measured at amortized cost

Financial liabilities measured at amortized cost (FLAC) include trade payables, liabilities to banks and other financial liabilities not held for trading. Trade payables are payment obligations for goods and services acquired in the ordinary course of business.

Management determines the classification of its financial liabilities upon initial recognition.
All financial liabilities are recognized initially at fair value less, in the case of liabilities to banks, transaction costs directly attributable to the acquisition.

IAS 32 states that equity only exists from the perspective of the entity if there is no obligation to repay the capital or to supply other financial assets in its place. A repayment obligation from company assets can exist if a shareholder has a right to termination and at the same time exercising this right would give rise to a severance entitlement against the entity.

Subsequent measurement

Subsequent measurement of the financial liabilities depends on the classification.

- Financial liabilities at fair value through profit or loss

After initial recognition, financial liabilities in this category are measured at their fair value until they are derecognized. Gains and losses from changes in fair value are recognized in profit or loss in the period recorded. Gains and losses contain both realized gains and losses resulting from the sale of the financial liabilities and unrealized gains and losses resulting from rolling forward the financial liabilities at amortized cost.

- Financial liabilities measured at amortized cost

After initial recognition, current trade payables as well as other current financial liabilities are reported at their repayment amount or settlement amount for convenience. Non-current financial liabilities as well as liabilities to banks are reported at amortized cost in accordance with the effective interest method. Gains and losses are recognized in the income statement when the liabilities are derecognized as well as through the effective interest method (EIR) amortization process. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The EIR amortization is included in financial expenses in the statement of comprehensive income.

Derecognition

A financial liability is derecognized when the corresponding obligation by the Group has been settled, revoked or has expired. The difference between the carrying amount of the derecognized financial obligation and the consideration received or receivable is reported in profit or loss.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if there is a current legal right and intention to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

Recognition in group financial statements

Trade payables

As of December 31, 2017, trade payables amount to EUR 14,779k (December 31, 2016: EUR 17,517k), they are due within one year, and they are non-interest bearing. This item also includes outstanding invoices for goods and services accrued as of the reporting date. Trade payables are generally due in 0 to 90 days.

Financial liabilities

kEUR	December 31, 2017	December 31, 2016
Finance lease liabilities	43	110
Other financial debt	16	9
Non-current financial liabilities	**59**	**119**
Money market loans	3,500	-
Finance lease liabilities	63	54
Other financial debt	12	10
Current financial liabilities	**3,575**	**64**
Financial liabilities	**3,634**	**183**

The existing credit line agreements with Commerzbank AG of EUR 5,000k and Deutsche Bank AG of EUR 5,000k were both renewed in 2017 until March 31, 2018, in order to ensure further financial flexibility beyond equity financing. The amount of the credit line was determined on the basis of inventories held, reduced by retention of ownership and a risk markdown. The credit line is secured by the assignment of defined warehouses as collateral, the assignment of existing and future customer claims, by pledging (existing and future) balances and deposits (held at the participating banks), and by pledging the Group's private label brands as collateral. In addition, there are covenant requirements, e.g. the adherence to certain liquidity ratios.

Of the overall credit line of EUR 10,000k, (December 31, 2016: EUR 14,111k), an amount of EUR 3,500k was drawn as of the balance sheet date (December 31, 2016: no credit line drawn). Further EUR 215k of this credit line is available as of December 31, 2017 (December 31, 2016: EUR 2,923k). The credit line was used through two money market loans of EUR 1,750k each, that were entered into with Commerzbank AG and Deutsche Bank AG and that mature on January 29, 2018, and on February 2, 2018. The money market loans bear interest of 4% and 2.75%.

Finance lease liabilities are measured at the present value of the future minimum lease payments. See note 10.

Other financial debt as of December 31, 2017, of EUR 28k (December 31, 2016: EUR 19k) relate to two bank loans with remaining terms of one and two years to finance fixed assets.

Other financial liabilities

kEUR	December 31, 2017	December 31, 2016
Contingent consideration Feedo Group	-	499
Accrued rent-free period	59	86
Sundry	-	4
Other non-current financial liabilities	**59**	**589**
Contingent consideration Feedo Group	-	3,369
Contingent consideration Bebitus	-	1,841
Debtors with credit balances	878	1,160
Other personnel-related liabilities	708	699
Bonus liabilities	403	325
Audit of financial statements and tax advisory services	180	165
Expected refund obligations for returns	144	405
Sundry	742	628
Other current financial liabilities	**3,055**	**8,592**
Other financial liabilities	**3,114**	**9,181**

Contingent liabilities are described in note 6. Debtors with credit balances relate to customer credits due to overpayment or filed returns. Expected refund obligations for returns are described in note 9.1. Other current liabilities do not bear interest.

<u>**Additional information on financial instruments**</u>

The following table shows the carrying amounts and fair value of all financial liabilities and the allocation of financial statement positions to the measurement categories in accordance with IAS 39 or measurement in accordance with IAS 17:

kEUR	Measurement category pursuant to IAS 39	Carrying amount as of December 31, 2017	Amount recognized in the statement of financial position in accordance with IAS 39			Amount recognized in the statement of financial position pursuant to IAS 17	Fair value as of December 31, 2017
			Amortized cost	Fair value in equity	Fair value through profit or loss		
Finance lease liabilities	n/a	106	-	-	-	106	106
Other financial debt	FLAC	3,528	3,528	-	-	-	3,528
Trade payables	FLAC	14,779	14,779	-	-	-	14,779
Other financial liabilities	FLAC / FLAFV	3,114	3,114	-	0	-	3,114
Aggregated by measurement category in accordance with IAS 39							
Financial liabilities measured at amortized cost	FLAC	21,421	21,421	-	-	-	21,421
Financial liabilities measured at fair value	FLAFV	0	-	-	0	-	0

kEUR	Measurement category pursuant to IAS 39	Carrying amount as of December 31, 2016	Amount recognized in the statement of financial position in accordance with IAS 39			Amount recognized in the statement of financial position pursuant to IAS 17	Fair value as of December 31, 2016
			Amortized cost	Fair value in equity	Fair value through profit or loss		
Finance lease liabilities	n/a	164	-	-	-	164	164
Other financial debt	FLAC	19	19	-	-	-	19
Trade payables	FLAC	17,517	17,517	-	-	-	17,517
Other financial liabilities	FLAC / FLAFV	9,181	3,472	-	5,709	-	9,181
Aggregated by measurement category in accordance with IAS 39							
Financial liabilities measured at amortized cost	FLAC	21,008	21,008	-	-	-	21,008
Financial liabilities measured at fair value	FLAFV	5,709	-	-	5,709	-	5,709

Due to the short-term maturities of trade payables and other current financial liabilities, the fair values for these items are assumed to be equal to the carrying amounts.

The following tables present the net gains/losses from financial financial liabilities per financial year:

kEUR	Interest expense	Through profit or loss from subsequent measurement			In equity from subsequent measurement	Through profit or loss from disposal	Net gain/loss
		At fair value	Currency translation	Allowance			
Financial liabilities measured at amortized cost (FLAC)	-46	-	18	-	-	-	-28
Financial liabilities measured at fair value through P&L (FLAFV)	-	1,629	-	-	-	-	1,629
Total for financial year 2017	-46	1,629	18	-	-	-	1,601

kEUR	Interest expense	Through profit or loss from subsequent measurement			In equity from subsequent measurement	Through profit or loss from disposal	Net gain/loss
		At fair value	Currency translation	Allowance			
Financial liabilities measured at amortized cost (FLAC)	-27	-	-23	-	-	-	-50
Financial liabilities measured at fair value through P&L (FLAFV)	-	865	-	-	-	-	865
Total for financial year 2016	-27	865	-23	-	-	-	815

Disclosures on capital management

The Group's capital management targets are mainly related to maintaining and ensuring the best possible capital structure for continuing to finance the growth plans and manage the value of the Company in the long term. The main focuses are on providing sufficient cash balances until the achievement of a positive free cash flow, actively managing net working capital, reducing cost of capital, and complying with financial covenants.

windeln.de SE is not subject to any capital requirements under its articles of incorporation and bylaws.

The Group manages its capital structure by means of detailed liquidity plans as of each balance sheet date, and, triggered by changes in economic environment, makes adjustments especially in mid-term financial investments and hedges of foreign exchange risks.

8.11. Non-financial liabilities

Non-current non-financial liabilities do not exist. Current non-financial liabilities break down as follows:

kEUR	December 31, 2017	December 31, 2016
Other employee benefits pursuant to IAS 19	-	2,333
VAT liabilities	905	330
Liabilities from social security	562	484
Other	223	125
Current non-financial liabilities	**1,690**	**3,272**

Other employee benefits pursuant to IAS 19 result from the acquisition of Bebitus, see note 6. Current non-financial liabilities do not bear interest.

8.12. Income taxes and deferred taxes

Accounting policy

The tax expense for the period comprises current and deferred taxes. Taxes are recognized in the statement of comprehensive income unless they relate to items recognized directly in equity or in other comprehensive income, in which case the taxes are recognized in equity or in other comprehensive income.

The current tax expense is calculated using the tax laws of the countries in which the legal entities operate and generate taxable income effective as of the end of the reporting period. Management regularly reviews the tax declarations, above all as regards matters open to interpretation and, where appropriate, recognizes provisions based on the amounts that are expected to be payable to the tax authorities.

Deferred tax is measured using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period and that are expected to apply to the period when the asset is realized or the liability is settled.

Deferred tax is recognized for all temporary differences between the tax base of the assets and liabilities and their carrying amounts in the IFRS financial statements as well as for unused tax losses (liability method).

If, however, deferred tax arises from the initial recognition of an asset or liability as part of a transaction other than a business combination, which as of the date of the transaction has no effect on the accounting or taxable profit or loss, a deferred tax item is not recognized on the date of initial recognition or subsequently. In addition, no deferred tax liabilities are reported upon initial recognition of goodwill. Deferred tax liabilities for taxable temporary differences associated with investments in subsidiaries are recognized unless the timing of the reversal of the temporary differences can be controlled by the Group and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets are only recognized on temporary differences or unused tax losses if there is reasonable assurance that they will be realized in the near future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off the recognized amounts and the deferred tax assets and liabilities relate to income taxes levied by the same tax authority and either relate to the same taxable entity or different taxable entities which intend to settle on a net basis.

Interest on arrears and/or late payment penalties on delayed income tax payments or income tax backpayments that are not deductible are reported in the tax result.

The expected Group tax rate is calculated for each year using a mixed calculation of the individual tax rates of all companies included in the consolidated financial statements.

Recognition in group financial statements

The major components of income tax expense and benefits for the financial years 2017 and 2016 are:

kEUR	2017	2016
Current income taxes	7	29
Actual income taxes	**7**	**29**
Deferred taxes from temporary differences	-4,071	-35
Deferred taxes from tax losses	11	22
Deferred taxes	**-4,060**	**-13**
Income tax benefit (-) and expense (+)	**-4,053**	**16**

Current taxes in Germany are calculated by applying a uniform corporate income tax rate including solidarity surcharge of 15.83% (2016: 15.83%) to distributed and retained profits. In addition to corporate income tax, trade tax is levied on profits generated in Germany. Taking into account the non-deductibility of trade tax as a business expense, the average rate for trade tax is 17.10% (2016: 16.79%), resulting in an overall tax rate in Germany of 32.93% (2016: 32.62%). windeln.de SE's deferred tax assets and liabilities were measured using the aggregate tax rate of 32.93% (December 31, 2016: 32.98%).

To calculate current taxes and deferred tax assets and liabilities in other countries, the following tax rates are applied:

- Italy – 27.9%
- Poland – 19.0%
- Romania – 16.0%
- Switzerland – 20.67%
- Spain – 25.0%
- Czech Republic – 19.0%
- China – 10.0%

A reconciliation of income tax expense and the result of multiplying the result for the year with the effective tax rate of the Group for the financial years 2017 and 2016 is as follows:

kEUR	2017	2016
Earnings before income taxes from continuing operations	-41,967	-34,449
Earnings before income taxes from discontinued operations	-	-7,508
Earnings before income taxes	**-41,967**	**-41,957**
Expected income tax benefit (-) and expense (+)	-11,714	-12,819
Unused tax losses without deferred tax assets	5,556	11,597
Unrecognized deferred tax assets arising on temporary differences	21	378
Unrecognized deferred tax liabilities arising on permanent differences	-	-764
Unrecognized deferred tax assets arising on transaction costs in equity	-15	-10
Non-deductible operating expenses	2,479	1,700
Non-taxable expense / income	-418	-179
Effects from changes in effective tax rates	-	101
Other effects	38	12
Effective tax benefit (-) and expense (+)	**-4,053**	**16**
Expected tax rate (in %)	27,91%	30,55%
Effective tax rate (in %)	9,66%	-0,04%

In 2017 as in 2016, the non-deductible operating expenses mainly relate to considerations from the acquisition of Feedo Group and Bebitus classified as share-based payment obligations and other employee benefits. See note 6.

The non-taxable expenses or income in 2017 and 2016 relate to contingent considerations resulting from the acquisition of Feedo Group and Bebitus. See note 6.

Deferred taxes break down as follows as of the reporting date:

kEUR	December 31, 2017	December 31, 2016
Tax-loss carry-forwards	38,560	32,911
Inventories	266	130
Other current provisions	298	526
Other non-current provisions	2	23
Other current financial liabilities	30	35
Defined benefit obligations and other accrued employee benefits	5	34
Trade receivables	13	44
Other	21	35
Deferred tax assets	**39,195**	**33,738**
Intangible assets	2,696	6,714
Other	26	-
Deferred tax liabilities	**2,722**	**6,714**
After netting:		
Deferred tax assets (total)	**38,588**	**33,081**
Deferred tax liabilities (total)	**2,115**	**6,057**
Thereof recognized in the statement of financial position (deferred tax assets)	15	10
Thereof recognized in the statement of financial position (deferred tax liabilities)	2,115	6,057

German loss carry-forwards for corporate income tax totaled EUR 112,642k (December 31, 2016: EUR 91,490k), German loss carry-forwards for trade tax totaled EUR 110,335k (December 31, 2016: EUR 89,695k), and foreign tax-loss carry-forwards totaled EUR 14,367k (December 31, 2016: EUR 12,242k).

Deferred tax assets on German loss carry-forwards only have to be recognized in the amount in which deferred tax liabilities are recognized, because windeln.de SE and Cunina GmbH have no profit history. Deferred tax assets on German tax-loss carry-forwards of EUR 35,585k (December 31, 2016: EUR 30,290k) were not recognized as of December 31, 2017. German tax-loss carry-forwards can be used for an unlimited period and do not expire. Due to the positive earnings trend based on the future business plans and the existing loss carryforward options, management expects it will be possible to use the German loss carryforwards in full.

No deferred tax assets were recognized on foreign tax-loss carry-forwards in Spain, Poland, and the Czech Republic due to the loss histories of Feedo Sp. z o.o., MyMedia s.r.o. and Bebitus Retail S.L.U., as well as partial limitations on usability. Tax-loss carry-forwards in Spain can be used for an unlimited period. Tax-loss carry-forwards in Poland and the Czech Republic expire after five years. In addition, tax-loss carry-forwards in Poland can only be partially used in subsequent years. Unrecognized deferred tax assets on tax-loss carry-forwards as of December 31, 2017 amounted to EUR 1,019k in Spain, EUR 1,267k in Poland and EUR 686k in the Czech Republic. Unrecognized deferred tax assets on tax-loss carry-forwards as of December 31, 2016 amounted to EUR 1,334k in Spain, EUR 800k in Poland and EUR 452k in the Czech Republic.

Deferred tax assets of EUR 2k were recognized on Swiss tax-loss carry-forwards as of December 31, 2017 (December 31, 2016: EUR 14k). As in the prior year, there are no loss carry-forwards in Italy, Romania or China.

As of December 31, 2017 and 2016, no deferred tax liabilities were recognized on temporary differences associated with investments in subsidiaries. If recognized, deferred tax liabilities would have amounted to EUR 248k as of December 31, 2017 (December 31, 2016: EUR 618k).

Significant accounting judgments and estimates

Deferred tax assets are recognized for all unused tax losses to the extent that it is more probable than not that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. If the actual results were to differ from management's expectations, this could have an adverse effect on financial performance, financial position and cash flows.

9. Notes to the consolidated statement of comprehensive income

9.1. Revenues and other operating income

Accounting policy

Revenue and other operating income are recognized when the performance obligations of the customer contract are satisfied, in accordance with the provisions of IFRS 15. A performance obligation is satisfied when the customer obtains control of the promised goods or the promised service. Revenue from the sale of goods is recognized when the goods have been delivered and the risks of ownership of the goods have been transferred to the buyer. Revenue from the rendering of services is recognized over the period in which the services are rendered. For the Group's services, this mainly involves parcel inserts and marketing campaigns and/or online advertising (using banners) for which consideration is paid.

Revenue is recognized in the amount of the transaction price of the customer contract, excluding taxes and other duties. Revenue is recorded net of sales deductions and expected returns. The transaction price is allocated to the single performance obligations of the customer contract.

Receivables from customers are generally due for immediate repayment. A payment term of 14 days is granted for goods purchased on account. Receivables from customers do not include financing components, they are not variable.

Management has analyzed its business relationships to determine if the Group is acting as a principal or an agent. Management has concluded that the Group is acting as a principal in all of its revenue arrangements.

Expected returns

Customers are generally granted a 14 to 30-day right of return for sales transactions. The expected return of goods after the end of the reporting period is shown on a gross basis in the statement of comprehensive income, with revenue reduced by the amount of expected returned revenue estimated on the basis of historical return rates. The outflow of goods recognized in profit or loss upon dispatch of the goods is corrected by the estimated amount of returns. A right to recover from the customer possession of the goods delivered is recognized in other current non-financial assets, and a refund obligation to the customer for the amount of the purchase price is recognized in other current financial liabilities.

Irrespective of the right of return, windeln.de meets statutory warranty obligations. No guarantees are granted beyond the minimum statutory requirements. Warranty claims from customers are refunded by windeln.de, and then recharged to the original equipment manufacturer.

Loyalty bonus programs

windeln.de Group offers loyalty bonus programs that allow customers to collect loyalty points each time they shopped or each time they made a successful referral. Additionally, loyalty points are granted for reasons of goodwill. The loyalty points collected can be used to obtain rebates on future purchases within 24 months, or to obtain a gift. Unredeemed loyalty points qualify as an unsatisfied performance obligation, that no revenue is recognized for.

The transaction price of the customer contract is allocated between the products sold and the loyalty points issued, with the transaction price allocated to the points equal to their relative stand-alone selling price. The relative stand-alone selling price of the points is calculated based on the rebates granted when redeeming the loyalty points, or on the value of the gift, taking historical redemption rates into account. The relative stand-alone selling price of the points issued is deferred, thus reducing revenue, and recognized as revenue when the points are redeemed or when they expire.

Savings plan

windeln.de SE gives its customers the option of purchasing a "Pampers savings plan" for a fixed amount in order to get a certain discount (percentage of the normal sales price) on future purchases of Pampers nappies and/or, depending on the version, of Pampers wet wipes, fashion and toys over a contractually agreed period of 12 or 24 months. The upfront fees generated from the sale of the savings plans qualify as an unsatisfied performance obligation. They are deferred within deferred revenues, and recognized as revenues ratably over the validity period of the individual savings plans.

Recognition in group financial statements

Revenues

The Group's revenue is mainly generated through the sale of baby and toddler products in Germany, China and other European countries.

kEUR	2017	2016
Revenues from continuing operations by type		
Revenue from the sale of merchandise	211,056	193,832
Revenue from other services	843	924
	211,899	**194,756**
Revenues from continuing operations by region		
Germany, Austria, Switzerland (GSA)	44,187	54,512
China	105,628	89,383
Other/rest of Europe	62,084	50,861
	211,899	**194,756**

Contract assets as conditional right to consideration for the transfer of goods do not exist. Refund obligations for returns are recognized within other current financial liabilities and amount to EUR 144k as of December 31, 2017, (December 31, 2016: EUR 405k). The corresponding right to recover possession of goods is recognized within current non-financial assets and amounts to EUR 213k as of December 31, 2017, (December 31, 2016: EUR 362k).

Contract liabilities are summarized within deferred revenues that represent the Group's unsatisfied performance obligations to customers. They stem from customer credits due to prepayments for outstanding shipments, purchased vouchers, loyalty bonuses and prepaid but unfulfilled performance obligations from savings plans. Contract liabilities developed as follows:

	Deferred revenues			
kEUR	**for outstanding shipments**	**for purchased vouchers**	**for loyalty bonuses**	**for savings plan**
As of January 1, 2016	**4,155**	**197**	**1,932**	**32**
thereof recognized as revenue in 2016	4,155	197	1,132	27
As of December 31, 2016	**2,941**	**327**	**1,238**	**49**
thereof recognized as revenue in 2017	2,941	309	940	42
As of December 31, 2017	2,268	279	488	22

The satisfaction of performance obligations from outstanding shipments happens within few days after the balance sheet date. Performance obligations from purchased vouchers are satisfied within the statutory period of limitation. For loyalty bonuses and savings plans, performance obligations exist for a maximum of 24 months. The transaction price of the respective performance obligations is the prepaid fee from customers. The transaction price of performance obligations from loyalty bonuses is furthermore determined upon historical redemption rates.

There are no unsatisfied performance obligations, that are not included in the transaction prices. The practical expedient of IFRS 15.121 is not applied.

Other operating income

kEUR	**2017**	**2016**
Gains from currency differences	890	827
Income from subleases	97	73
Other	319	71
Other operating income from continuing operations	**1,306**	**971**

Gains from currency differences mainly contains exchange rate gains between the date of origin and the date of payment of foreign exchange receivables and liabilities.

<u>Significant accounting judgments and estimates</u>

The obligations from the loyalty points program are measured based on various estimates and assumptions. Pursuant to IFRS 15 "Revenue from Contracts with Customers", loyalty points issued and not yet redeemed are recognized at the relative stand-alone selling price. The relative stand-alone selling price of a loyalty point is calculated based on the selling prices of the respective bonus products. Loyalty points likely to expire are not deferred. The estimate of loyalty points likely to expire is based on the redemption rates observed to date, taking into account the rules for taking part in loyalty points program.

To estimate the expected returns after the end of the reporting period, the revenue recorded in the period of the right of return was calculated and measured taking into account the historical return rates.

For the recognition of revenues from savings plans, judgement was made that all customers use the saving plan ratably over the validity period.

9.2. Operating expenses

Accounting policy

Operating expenses are recognized in profit or loss when the purchased item is received or when a service is rendered.

Recognition in group financial statements

kEUR	2017	2016
Cost of sales from continuing operations		
Cost of materials	156,749	141,338
Personnel expenses	1,372	1,059
Handling fees	1,226	484
Amortization, depreciation and impairments	38	16
Other cost of sales	179	87
	159,564	**142,984**
Selling and distribution expenses from continuing operations		
Logistics expenses	27,326	30,222
Personnel expenses	11,851	11,163
Amortization, depreciation and impairments	11,684	1,126
Marketing	11,161	13,569
Rental expenses	4,340	4,410
thereof warehouse rent	*3,654*	*3,913*
Payment processing	2,848	2,983
External services	2,717	2,454
Bad debts / valuation allowances	1,273	1,411
Sales commissions	447	215
Other selling and distribution expenses	1,374	860
	75,021	**68,413**
Administrative expenses from continuing operations		
Personnel expenses	15,400	12,417
Legal and consulting costs	1,487	1,956
IT environment	1,047	991
External services	488	497
Amortization and depreciation	443	380
Recruiting	390	181
Rental expenses	340	344
Closing expenses and audit fees	328	351
Supervisory board remuneration including out-of pocket expenses	203	254
Insurance	184	176
Travel expenses	143	137
Payment transactions	30	40
Other administrative expenses	938	1,080
	21,421	**18,804**

kEUR	2017	2016
Other operating expenses from continuing operations		
Losses from currency differences	724	809
Losses from the disposal of non-current assets	49	20
Other	9	10
	782	**839**

Losses from currency differences mainly contains exchange rate losses between the date of origin and the date of payment of foreign exchange receivables and liabilities.

Expenses for defined benefit obligations and other accrued employee benefits

kEUR	2017	2016
Wages and salaries	17,501	19,579
Share-based payments	412	551
Share-based payments in connection with acquisitions	7,716	4,999
Social security expenses	2,994	3,443
Personnel expenses	**28,623**	**28,572**
thereof from continuing operations	28,623	24,639
thereof from discontinued operations	-	3,933

In 2017, the Group had an average of 430 permanent employees (2016: 543) and 34 working students (2016: 83). The contributions to the statutory pension insurance schemes amount to EUR 1,708k (2016: EUR 1,886k).

In the past the Company issued virtual stock options, stock options, and restricted stock units to various employees as remuneration components, see note 8.8.

9.3. Financial result

Accounting policy

Using the effective interest method, interest is recognized as an income or expense in the period in which it is incurred.

Recognition in group financial statements

kEUR	2017	2016
Interest and similar income	23	42
Other financial income	1,650	1,001
Financial income from continuing operations	**1,673**	**1,043**
Interest and similar expenses	7	22
Other financial expenses	50	157
Financial expenses from continuing operations	**57**	**179**
Financial result from continuing operations	**1,616**	**864**

Other financial income results mainly from changes in fair values of derivatives in the amount of EUR 1,629k from the acquisitions of the Feedo Group and Bebitus.

9.4. Discontinued operations

Accounting policy

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the statement of comprehensive income.

Recognition in group financial statements

With the final exit of flash sales operations by end of September 2016, the business segment "Shopping Clubs" qualifies as a discontinued operation under IFRS, and is therefore presented separately from continuing operations in the Group's consolidated statement of comprehensive income as of December 31, 2016. In 2017, no income or expenses were recognized from discontinued operations.

9.5. Earnings per share

Accounting policy

Basic earnings per share is the Group's net profit for the period attributable to the shareholders divided by the weighted average number of shares in circulation during the reporting period. Treasury shares do not qualify as shares in circulation and are therefore excluded from the weighted average number of shares during the period, in which they are held by the company.

The diluted earnings per share is calculated by dividing the net profit for the period attributable to shareholders by the weighted average number of shares in circulation during the reporting period plus the share equivalents that result in dilution.

Recognition in group financial statements

Basic earnings per share	2017	2016
Profit or loss from continuing operations (kEUR)	-37,914	-34,465
Profit or loss from discontinued operations (kEUR)	-	-7,508
Profit or loss for the period (kEUR)	**-37,914**	**-41,973**
Basic weighted average number of shares (thousands)	26,868	26,206
Earnings per share from continuing operations (EUR)	**-1.41**	**-1.31**
Earnings per share from discontinued operations (EUR)	**-**	**-0.29**
Earnings per share (EUR)	**-1.41**	**-1.60**

Diluted earnings per share	2017	2016
Profit or loss from continuing operations (kEUR)	-37,914	-34,465
Profit or loss from discontinued operations (kEUR)	-	-7,508
Profit or loss for the period (kEUR)	**-37,914**	**-41,973**
Diluted weighted average number of shares (thousands)	29,284	29,562
Earnings per share from continuing operations (EUR)	**-1.29**	**-1.17**
Earnings per share from discontinued operations (EUR)	**-**	**-0.25**
Earnings per share (EUR)	**-1.29**	**-1.42**

The following table illustrates the reconciliation of the dilution effects per instrument on the numerator and the denominator in the earnings per share calculation:

	2017	2016
Basic profit or loss for the period (kEUR)	-37,914	-41,973
Dilution from stock options and restricted stock units (kEUR)	-	-
Dilution from contingent considerations (Earn Outs, kEUR)	-	-
Diluted profit or loss for the period (kEUR)	**-37,914**	**-41,973**
Basic weighted average number of shares (thousands)	26,868	26,206
Dilution from stock options and restricted stock units (thousands)	233	211
Dilution from contingent considerations (Earn Outs, thousands)	2,183	3,145
Diluted weighted average number of shares (thousands)	**29,284**	**29,562**

10. Leasing

Accounting policy

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date. It requires an assessment of whether fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

A lease is classified as a finance lease if all risks and rewards incidental to ownership are transferred to the lessee, and if the present value of the leased asset exceeds a threshold EUR 5,000. All other leases are classified as operating leases.

Leased assets constituting purchases of assets with long-term financing are classified as finance leases. They are recognized at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. The corresponding liability is recorded as a lease liability under financial liabilities in the statement of financial position.

Assets leased under operating leases are not recognized. Instead, the lease payments are expensed on a straight-line basis over the term of the lease.

Recognition in group financial statements

Operating lease commitments

The Group has concluded lease agreements for office and warehouse spaces, various vehicles and furniture and fixtures. These leases have an average term of between one and five years. Some of the lease agreements renew automatically, if not cancelled within a certain cancellation term. The Group is not subject to any limitations by the leasing agreements.

The expenses recognized in the reporting period from operating leases amount to EUR 1,445k (2016: EUR 1,816k).

Future minimum lease obligations from non-cancellable operating leases as of December 31 are as follows:

kEUR	2017	2016
Less than one year	1,077	1,408
More than one year and up to five years	1,371	2,019
More than five years	-	-
Total	**2,448**	**3,427**

As of December 31, 2017, the Company had future minimum lease payments receivable under uncancellable operating leases for sublet office and warehouse spaces of EUR 3k (December 31, 2016: EUR 66k), that are due within one year.

Finance lease commitments

The Group has concluded various lease contracts for software, furniture, fixtures and office equipment, the design of such lease agreements requires a recognition as finance leases. The agreements do not contain renewal options, purchase options or escalation clauses. Future minimum lease payments under finance leases and lease-purchase contracts together with the present value of the net minimum lease payments are as follows:

	December 31, 2017		December 31, 2016	
kEUR	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
Less than one year	68	63	62	54
More than one year and up to five years	45	43	118	110
More than five years	-	-	-	-
Total minimum lease payments	**113**	**106**	**180**	**164**
Less finance charges	-7	-	-16	-
Present value of minimum lease payments	**106**	**106**	**164**	**164**

11. Financial risk management

The Group is exposed to various financial risks (market risks comprising currency and interest rate risk, credit risk and liquidity risk) on account of its business activities. The Group's risk management system focuses on the unpredictability of developments on financial markets and aims at minimizing potential adverse effects on the financial position of the Group.

Risk management is performed by the corporate finance department. As in the prior year, a Risk Coordinator assumes that function as part of Group Controlling department. Additionally, a new function of treasury management was set up in 2017. Both the Risk Coordinator and the Head of Treasury identify and assess financial risks in close cooperation with the Group's operating units. The management board prescribes the principles for Group-wide risk management and policies for certain risks, such as foreign currency, interest rate and credit risks, and for the use of derivative and non-derivative financial instruments, as well as the investment of cash surpluses.

The main financial liabilities used by the Group comprise interest-bearing financial debt, trade payables and other financial liabilities. The main purpose of these financial liabilities is to finance the Group's operations and to provide guarantees to support its operations. The Group has trade receivables and other financial receivables as well as cash and cash equivalents resulting directly from its operating activities, from cash received from shareholders in financing rounds, and from the IPO.

11.1. Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks include interest rates, currency and other price risks.

11.1.1. Currency risk

Accounting policy

The Group entities each prepare their financial statements in the currency of the primary economic environment in which the respective entity operates (functional currency). Transactions in foreign currencies are initially translated to the functional currency using the respective spot rate prevailing on the date of the transaction. Monetary assets and liabilities in foreign currencies are translated to the functional currency as of the end of each reporting period using the respective spot rate. The related translation differences are recognized in profit or loss. In addition, non-monetary items measured at fair value are translated using the spot rate on the date of measurement at fair value.

For the purpose of preparing the consolidated financial statements, the assets and liabilities of subsidiaries whose functional currency is not the euro are translated to euro at the spot rate prevailing as of the end of the reporting period. Items in the statement of comprehensive income are translated to euro using the average rate for the respective financial year. The equity of the subsidiaries is translated at the corresponding historical rates. The currency differences resulting from currency translation are reported as an adjustment item from the translation of foreign currency financial statements within accumulated income and expenses directly in equity.

The exchange rates of the main currencies relevant for currency translation developed as follows:

		Average rate (1 EUR = 1 CU FC)		Closing rate (1 EUR = 1 CU FC)	
Country	Currency	2017	2016	Dec. 31, 2017	Dec. 31, 2016
Switzerland	CHF	1.1117	1.0902	1.1702	1.0739
Poland	PLN	4.2570	4.3632	4.1770	4.4103
Czech Republic	CZK	26.3258	27.0343	25.5350	27.0210
People’s Republic of China	CNY	7.6290	7.3522	7.8044	7.3202
United States of America	USD	1.1297	1.1069	1.1993	1.0541

Recognition in group financial statements

The currency risk can be broken down into two types of risk – the transaction risk and the translation risk.

The translation risk describes the risk of changes in the items in the statement of financial position and income statement of a subsidiary due to exchange rate changes when translating the local separate financial statements into the Group’s currency. The changes caused by currency fluctuations from the translation of items in the statement of financial position are presented in equity. The windeln.de Group is currently exposed to such a risk at five of its subsidiaries, although for four of these subsidiaries, the risk to the Group is classified as low on account of the size of these entities. These four entities are merely service companies without their own external revenues. Currently, this risk is not hedged.

The transaction risk relates to the fact that exchange rate fluctuations can lead to changes in value of future foreign currency payments. The Group has international operations and as a result is exposed to a currency risk based on the exchange rate changes of various foreign currencies.

Since July 2016, windeln.de SE generates revenues in China through the Chinese Tmall platform (https://windelnde.tmall.hk).

Transactions are concluded in Renminbi Yuan (CNY). Receivables from customers arise in CNY, incoming customer payments are converted to EUR by the payment provider, so that the company does not hold cash deposits in CNY. Due to the short payment terms and the low amount of CNY receivables, currency risks are low, and they are currently not hedged. Sales to Chinese customers via the “www.windeln.cn.com” shop are transacted exclusively in EUR.

Furthermore, in the “www.windeln.ch,” “www.toys.ch,” and “www.kindertraum.ch” shops, windeln.de SE generates revenues in Swiss francs (CHF). As a result of the consolidation of purchasing, logistics, marketing and administrational functions in the Group, cost of sales and operating expenses are primarily incurred in EUR. The arising foreign exchange risks are currently not hedged.

MyMedia s.r.o., which uses the Czech koruna (CZK) as its functional currency, generates approximately 42% of its revenues in the “www.feedo.pl” and “www.feedo.sk” shops in Polish Zloty (PLN) and Euro (EUR). Foreign exchange risks arise from cost of sales and operating expenses that are mainly incurred in CZK and PLN. The foreign currency risk arising from the translation primarily of Polish zloty is mitigated by means of natural hedging, i.e., local product procurement in PLN and sale of the merchandise to local end customers in PLN. To hedge the EUR foreign exchange risk, the company has entered into foreign exchange forward agreements. See note 8.3.

The windeln.de Group also currently undertakes procurement to a limited extent in U.S. dollars (USD), and in rare cases in other currencies. The Group uses regular analyses to monitor the volume of these purchases.

For the presentation of market risks from financial instruments, IFRS 7 requires sensitivity analyses that show the impact of hypothetical changes in relevant risk variables on profit or loss for the period and on equity. The following analysis is one-dimensional and does not take tax effects into account. The table shows the positive and negative effects if the euro were to gain or lose 10% in value against the currencies shown, if all other variables were to remain constant. Currency gains and losses on trade receivables and trade payables denominated in foreign currencies affect net profit, which is then reflected in the same way in equity. Apart from these currency effects, there are no other effects on equity with regard to financial instruments.

Currency	FX rate as per December 31, 2017 (1 EUR = 1 CU FC)	Effect on net profit for 2017 at +10% (in kEUR)	Effect on net profit for 2017 at -10% (in kEUR)
CHF	1.1702	-29	36
PLN	4.1770	-494	485
CZK	25.5350	-455	463
CNY	7.8044	12	-12
USD	1.1993	20	-25

The Group’s risk from exchange rate fluctuations for all other currencies not presented here is of no material significance.

Since forward exchange contracts to hedge cash flows or net investments in foreign subsidiaries do not exist, there are no related earnings effects on equity based on the sensitivity analysis.

11.1.2. Interest rate risk

The interest rate risk involves the influence of positive or negative changes in interest on the earnings, equity or cash flow for the current or future reporting period. Interest rate risks from financial instruments may arise in the windeln.de Group mainly in connection with financial debt and financial investments.

The parent company of the Group has concluded credit lines with variable interest rates and as such is currently exposed to an interest rate risk in relation to the financial debts. The credit lines were only used for few days in 2017. As of December 31, 2017, there were financial debts of EUR 3,500k in this connection. Other financial debts exist as of December 31, 2017 in an immaterial amount. Hence, a change in the interest rate on borrowed capital would have no effect on net profit or consolidated equity as of the reporting date.

Additionally, cash and cash equivalents are exposed to risks from declining or negative interest rates on bank deposits. In order to hedge the risk, time deposits with fixed interest rates were set up.

11.2. Credit risk

Credit risk, otherwise known as default risk, is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The scope of the credit risk of the windeln.de Group equals the sum of the trade receivables, other financial assets, and cash and cash equivalents. The maximum credit risk in the event of default by a counterparty is the carrying amount of all these named classes of financial asset as of the respective reporting date. There are no material concentration risks for the windeln.de Group.

Default risks for the windeln.de Group mainly relate to trade receivables from end customers. Credit limits are established for all end customers based on internal rating criteria. In order to reduce default risks, safe payment methods are applied, e.g. credit card transactions with 3D Secure or PayPal transactions with seller protection. Direct debit transactions are only to customers that meet certain solvency criteria. Trade receivables arising in connection with the "buy on account" transactions are sold to a third party as they arise. Outstanding receivables from customers are monitored on a regular basis and go through a three-stage dunning process. In addition, a framework agreement with a collection service provider has been concluded. To reduce the credit risk, flat-rate specific bad debt allowances are recognized taking into account the age structure of the receivables. Overdue receivables that have still not been paid after dunning are derecognized in full and expensed.

In addition, there is a credit risk for cash and cash equivalents that banks can no longer meet their obligations. This credit risk is mitigated by spreading deposits between a number of banks with good credit ratings.

11.3. Liquidity risk

The liquidity risk is the risk that the Group may not be in a position to settle its financial liabilities when they fall due. For this reason, the main objective of liquidity management is to ensure the Group's ability to pay at all times. The Group continually monitors its risk of a shortage of funds using liquidity planning. This takes into consideration cash received and paid for financial assets and financial liabilities as well as expected cash flows from operating activities. Cash flow forecasts are prepared at Group level.

Momentarily, sufficient cash deposits are available in order to cover net cash outflows from operating activities. The Group's mid-term objective is to ensure the flexibility of credit lines and to adjust them to the liquidity requirements arising from the future business development. Of the overall credit line of EUR 10,000k (December 31, 2016: EUR 14,111k) with two banks independent of each other, an amount of EUR 215k can be drawn as of the balance sheet date (December 31, 2016: EUR 2,923k). The Group is not exposed to any liquidity risks at present.

The following table shows the Group's financial liabilities broken down by maturities based on the remaining term as of the respective reporting date and the contractually agreed undiscounted cash flows. All on-demand financial liabilities are always allocated to the earliest possible date. Any variable interest payments from the financial instruments are calculated using the interest rates which were last fixed before the respective reporting date.

kEUR	Less than 3 months	3 months up to 1 year	More than 1 year
As of December 31, 2017	20,966	443	118
Financial liabilities	3,517	58	59
Trade payables	14,777	2	-
Other financial liabilities	2,672	383	59

12. Related party disclosures

Related parties are all persons and companies that control the Group or exercise significant influence over it. This includes the Group's key management personnel, companies that are under the control or significant influence of such persons, close family members of such persons, and major shareholders of windeln.de SE.

Pursuant to the principles in IAS 24, the members of the management board and the supervisory board of windeln.de SE are classified as key management personnel. No shareholder of windeln.de SE has a direct or indirect significant influence on the Group. A significant influence is assumed if more than 20% of the voting rights are held directly or indirectly.

Information about the Group's structure and subsidiaries are presented under note 5. windeln.de SE is the ultimate parent company.

Terms and conditions of transactions with related parties

The sales to and purchases from related parties are made at terms equivalent to those that prevail in arm's length transactions. Outstanding balances at the year-end are unsecured, interest free and settlement is made in cash. There have been no guarantees provided or received for any related party receivables or payables. No impairment losses were recognized on receivables from related parties in the financial years 2017 and 2016.

Transactions with key management personnel

The members of windeln.de SE's management board and supervisory board were identified as related parties. The composition of the management board and the supervisory board as well as the benefits granted are described under note 13.

Furthermore, in 2017 and 2016, no transaction occurred in the normal course of business. As of December 31, 2017 and 2016, there were no outstanding receivables from the sale of goods to key management personnel.

Transactions with other related parties

Goods to the value of EUR 1k (2016: EUR 3k) were sold to close family members of key management personnel in the financial year 2017 in the normal course of business. There were no outstanding receivables in this connection as of December 31, 2017 and 2016.

In the financial years 2017 and 2016, there were no loans from or to related parties.

13. Corporate boards and remuneration

13.1. Management board

Name	Profession	External mandates
Alexander Brand	Co-CEO and responsible for the Strategy & Acquisitions, Technology, and Business Intelligence units	• ABrand Management GmbH (Managing director) • Packlink SL (Member of supervisory board)
Konstantin Urban	Co-CEO and responsible for Marketing, Product Management, and Category Management units	Gut Vermögensverwaltung GmbH (Managing director)
Jürgen Vedie	COO and responsible for Logistics, Customer Service and Procurement units	None
Dr. Nikolaus Weinberger	CFO and responsible for Finance & Controlling, Corporate Communication, Legal Affairs, Human Resources, and Facility Management units	None

13.2. Aufsichtsrat

Name	Ausgeübter Beruf	Mandate
Willi Schwerdtle, Chair	Independent business consultant, Partner at WP Force Solutions GmbH	• adidas AG (Deputy chairman of the supervisory board) • Eckes AG (member of the supervisory board)
Dr. Christoph Braun, Deputy chair	Managing Director of Acton Capital Partners GmbH	• Grandview GmbH (Managing Director) • Momox GmbH (Chairman of the supervisory board) • Sofatutor GmbH (Chairman of the advisory board) • Finanzcheck GmbH (member of the advisory board) • Oetker Digital GmbH (member of the advisory board)
Nenad Marovac	CEO of DN Capital Limited and Managing Partner of DN Capital (UK) LLP	• DN Capital Group (mandates in various entities of the Group) • Mister Spex GmbH (member of the supervisory board) • Shazam Entertainment Ltd. (member of the Board of Directors) • Happn S.A. (member of the Board of Directors) • Book a Tiger: BAT Household Services GmbH (member of the supervisory board) • Dojo Madness GmbH (member of the supervisory board) • Flying Jamon Ltd. (member of the Board of Directors) • Move24 Group GmbH (member of the supervisory board) • HomeToGo GmbH (member of the advisory board) • X24 Factory GmbH (member of the supervisory board) • Joblift GmbH (member of the supervisory board)
Dr. Edgar Carlos Lange	CFO at Lekkerland AG & Co. KG	• Lekkerland Group (Managing Director and supervisory board member in various entities of the Group) • Comsol AG (member of the supervisory board)
Petra Schäfer	General Manager at Globus Warenhaus Holding GmbH & Co. KG	GS1 Germany GmbH (member of the supervisory board)

Name	Ausgeübter Beruf	Mandate
Tomasz Czechowicz (since June 2, 2017)	Chief Executive Officer at MCI Capital S.A., MCI Capital TFI S.A. and Private Equity Managers S.A.	• MCI Venture Projects Sp. z o.o. II S.K.A. (member of the management board) • MCI Venture Projects Sp. z o.o. Trzy S.K.A. (member of the management board) • MCI Venture Projects Sp. z o.o. IV S.K.A. (member of the management board) • MCI Venture Projects Sp. z o.o. V S.K.A. (member of the management board) • MCI Venture Projects Sp. z o.o. VI S.K.A. (member of the management board) • MCI Venture Projects Sp. z o.o. VIII S.K.A. (liquidator) • MCI Venture Projects Sp. z o.o. IX S.K.A. (member of the management board) • MCI Venture Projects Sp. z o.o. X S.K.A. (member of the management board) • MCI Venture Projects Sp. z o.o. sp.j. (member of the management board) • MCI Fund Management Sp. z o.o. (member of the management board) • Frisco.pl Sp. z o.o. (member of the supervisory board) • Frisco S.A. (member of the supervisory board) • Morele.net Sp. z o.o. (member of the supervisory board) • ABC Data S.A. (member of the supervisory board) • eCard S.A. (member of the supervisory board) • Dotpay S.A. (member of the supervisory board) • Mobiltek S.A. (member of the supervisory board) • Eurokoncept Sp. z o.o. (member of the supervisory board) • RentPlanet Sp. z o.o. (member of the supervisory board) • Indeks Bilgisayar Sistemleri Mühendislik Sanayi ve Ticaret A.S. (member of the Board of Directors) • Wearco Sp. z o.o. (member of the supervisory board) • PEM Asset Management Sp. z o.o. (member of the management board) • ABCD Management Sp. z o.o. (member of the management board) • ABCD Management Sp.j. (member of the management board, member of the Board of Managing Partners)

External mandates comprise memberships in supervisory boards and other controlling bodies as of December 31, 2017, pursuant to Sec. 285 No. 10 German Commercial Code (HGB) and Sec. 125 No. 1 Stock Corporation Act (AktG). Additionally, they include active positions as board members or managing directors as of December 31, 2017. Non-voting positions as board observers are not disclosed as external mandates.

13.3. Remuneration report

Outline of management board compensation

The Company does not present a breakdown of remuneration by individual management board members. The management board was exempted from the disclosures pursuant to Secs. 285 No. 9 a) sentence 5 to 8, 314 (1) No. 6a sentence 5 to 8 HGB by way of a resolution of the extraordinary shareholder meeting on April 21, 2015.

Total compensation comprises fixed and variable components, and a long-term stock option plan.

The system of management board compensation at windeln.de is set up to provide an incentive for successful, long-term corporate growth. The level of compensation is appropriate to the tasks and performance of the management board. Once a year, the supervisory board reviews the appropriateness of management board compensation in consideration of the following criteria: the economic situation, the success and future development of the company, and the tasks of the individual members of the management board and their personal performance. The industry environment and the salary structure for the rest of the Company also play a role.

Fixed, non-performance-related compensation components

Management board members receive fixed compensation through their annual salary paid in equal monthly installments and benefits in kind.

Variable, performance-related compensation components

The variable compensation component rewards the performance of the management board for the last financial year in line with the development of the Company and annual targets set by the supervisory board.

Three quarters of the variable bonus depend on the achievement of certain company targets (revenues, adjusted earnings before interest and taxes, cash flows from operating activities). Based on target achievement of 100% (target bonus), the maximum of is bonus component is EUR 360k for the four management board members.

The remaining quarter of the bonus is granted by the supervisory board at its own discretion on the basis of an overall assessment of all circumstances depending on the individual performance of each individual management board member. In the event of target achievement of 100%, the maximum of both bonus elements together stands at EUR 420k. The bonus for each member of the management board is capped at 200%.

Share-based payment transactions

The issuing of entitlements to share-based payment is intended to compensate the long-term performance of the management in line with the business plans.

For one member of the management board, two share-based payment commitments were made in 2015, one cash-settled (stock options) and one equity-settled (restricted stock units, RSUs). For two members of the management board, in 2016 a portion of their prior year bonus was compensated through the issuance of 10,782 RSUs in accordance with the Long Term Incentive Program. All four board members received stock options and RSUs in 2016. Details on the prior years are available in the prior year's publications.

In 2017, 124,539 stock options and 41,514 RSUs were granted to the four members of the management board. The fair values as of the grant date and the reporting date for commitment made in 2017, that are all planned to be settled in real equity instruments (shares), amount to EUR 251k. The fair value of stock options granted in 2015 and settled in cash, amounts to EUR - as of December 31, 2017 (December 31, 2016: EUR 1k). Details of the respective programs are outlined in note 8.8.1.

Two members of the management board will leave the company as of March 31, 2018. The assumptions about the number of exercisable stock options and RSUs was adjusted in 2017, accordingly.

The share-based compensation expense, recognized in the comprehensive income statement in 2017, amounts to EUR 255k. As of December 31, 2017, no provision was recognized for the cash-settled share-based payment obligation. For the equity-settled share-based payment obligation, an amount of EUR 896k was recognized in the share premium as of December 31, 2017.

Benefits in kind

Benefits in kind received by the management board comprise the use of company cars.

Below, the expense recognized in the financial years 2017 and 2016 is broken down by type of compensation:

kEUR	2017	2016
Fixed salary components	840	730
Variable salary components	397	31
Expenses for share-based payments	255	497
Expenses for the vacation accrual	1	-62
Benefits in kind and social security expenses	93	72
Total	**1,586**	**1.268**

The Group also grants the management board members adequate insurance coverage, in particular a D&O insurance policy with a deductible in accordance with the provisions of the German Stock Corporation Act (AktG).

Supervisory board remuneration

Supervisory board compensation was approved in the extraordinary shareholder meeting on April 21, 2015 and comprises defined, non-performance-based annual payments. It is based on the responsibility and scope of activities of each supervisory board member and on the Group's economic situation. Supervisory board members, who only exercise their office as a supervisory board member or chairman for part of the financial year, receive a corresponding percentage of the compensation. The compensation for the supervisory board members falls due after the shareholder meeting that takes receipt of or decides on the approval of the consolidated financial statements for the financial year for which the compensation is being paid.

The annual supervisory board remuneration amounts to EUR 40k or EUR 80k in the case of the chairman. One member of the supervisory board waived his compensation in 2016. In addition to the aforementioned compensation, appropriate out-of-pocket expenses incurred in connection with supervisory board activities are refunded, as well as VAT on the compensation and the out-of-pocket expenses if incurred by foreigners who are not liable to German tax. A total expense of EUR 203k was recognized for supervisory board compensation for the financial year 2017 (2016: EUR 254k).

The supervisory board members are covered by a Group D&O insurance policy.

14. Audit fees

The expense for the auditor's fees, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, including out-of-pocket-expenses, breaks down as follows:

kEUR	2017	2016
Audit services	128	134
Other assurance services	-	-
Tax advisory services	-	-
Other services	-	8
Total fee	**128**	**142**

15. Corporate governance declaration

windeln.de SE has submitted the declaration of compliance with the German Corporate Governance Code required by Sec. 161 AktG and made it available to its shareholders on the website http://corporate.windeln.de.

16. Events after the reporting date

Accounting policy

Transactions announced after the end of the reporting period but which took place in substance prior to the end of the reporting period are taken into account in the consolidated financial statements. Significant transactions that took place in substance after the end of the reporting period are explained.

Transactions after the reporting date

Set of measures to increase efficiency and reduce costs

On February 6, 2018, management board and supervisory board of windeln.de SE approved a set of measures to increase efficiency and reduce costs, comprising:

- Restructuring and cost reductions of the Group;
- Evaluation of a sale of Feedo Group; and
- Abandonment of the business in Italy (webshop pannolini.it, local warehouse and local office)

The implementation of the measures is expected to result in a reduction of currently 387 full-time equivalents to approximately 250 full-time equivalents. windeln.de estimates that those measures will lead to one-time costs of approximately EUR 1.5m. Overall, a total cost reduction of EUR 10m is expected, compared to the 2017 financials.

Planned divestiture of Feedo Group

windeln.de SE intends to sell Feedo Group, comprising the legal entities Feedo Sp. z o.o. and MyMedia s.r.o. with all their assets (including domains) and liabilities. windeln.de acquired Feedo Group in 2015. Since the acquisition, Feedo Group could improve its profitability, but is still loss-generating. In early 2018, the management board and the supervisory board of windeln.de SE decided to assess the sale of Feedo Group.

Capital increase

Along with the above-mentioned measures, windeln.de announced a capital increase from authorized capital against cash contribution. The capital increase was successfully completed on February 6, 2016. A total of 2,628,323 common shares were issued. As a result, share capital increased by EUR 2,628,323 to EUR 31,100,743. The shares were offered at a price of EUR 1.98, leading to gross issuing proceeds of EUR 5,204,080. Shareholders' subscription rights were excluded. The new shares are entitled to dividend payments from January 1, 2018, onwards.

Munich, March 12, 2018

Alexander Brand Konstantin Urban Jürgen Vedie Dr. Nikolaus Weinberger

Responsibility statement

To the best of our knowledge, and in accordance with the applicable reporting princibles, the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group, and the group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Munich, March 12, 2018

windeln.de SE
The management board

Alexander Brand Konstantin Urban Jürgen Vedie Dr. Nikolaus Weinberger

Independent auditor’s report

Report on the audit of the consolidated financial statements and of the group management report

Opinions

We have audited the consolidated financial statements of windeln.de, Munich, its subsidiaries (the Group), which comprise the consolidated statement of comprehensive income for the fiscal year from 1 January to 31 December 2017, the consolidated statement of financial position as of 31 December 2017, the and the consolidated statement of cash flows and the consolidated statement of changes in equity for the fiscal year from 1 January to 31 December 2017, and the notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of Company for the fiscal year from 1 January 2017 to 31 December 2017.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB and the IFRSs as a whole as published by the International Accounting Standards Board (IASB), and in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2017, and of its financial performance for the fiscal year from 1 January 2017 to 31 December 2017, and
- the accompanying group management report as a whole provides an appropriate view of the Group’s position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

Pursuant to Sec. 322 (3) Sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the opinion

We conducted our audit of the consolidated financial statements and of the group management report in accordance with Sec. 317 HGB and the EU Audit Regulation (No 537/2014, referred to subsequently as ”EU Audit Regulation”) and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). We also considered the International Standards on Auditing (ISA) when conducting our audit. Our responsibilities under those laws, rules and standards are further described in the ”Auditor’s responsibilities for the audit of the consolidated financial statements and the group management report” section of our report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Art. 10 (2) f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Art. 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the group management report.

Key audit matters in the audit of the consolidated financial statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the fiscal year from 1 January 2017 to 31 December 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters.

Below, we describe what we consider to be the key audit matters:

Revenue recognition

Reasons why the matter was determined to be a key audit matter:
The business activity of the group consists of the online sale of items for babies and small children, primarily to private end customers. The revenue and other operating income is recognized at the time when the performance obligations from the customer agreement is fulfilled. Revenues are reduced by the expected returns. This estimate is based on historical return rates. Recognizing revenue is an area that carries significant risk of material misstatement and is thus a key audit matter as there are a large number of these transactions and revenue is a financial performance indicator.

Auditor’s response:
In the course of our audit, we examined the methods and procedures for revenue recognition set by the Company as well as the application of accounting policies for sales and returns of goods (estimated returns). We assessed the design and operating effectiveness of the accounting-related internal control system by verifying business transactions from when the transaction is made to recognition in the financial statements as well as by testing cut-off reports in order to determine when the risk was transferred.

As part of our substantive audit procedures, we evaluated the estimates and assumptions of the management based on a sample. Based on a random selection of samples we checked whether the prerequisites for the realization of revenues are in place and that the risk has been transferred to the buyer. We analyzed the accuracy of the estimates of expected returns using the actual return rates of the past.

We also obtained documents from third parties for the receivables open on the reporting date (balance confirmations). In order to assess the margin development over the course of the year and compared to the prior year, we carried out analytical audit procedures.

Our audit procedures did not lead to any reservations as regards cut-off of revenues.

Reference to related disclosures:
For information about the accounting policies used for revenue recognition, we refer to the disclosures in the notes to the consolidated financial statements in the notes on the consolidated statement of comprehensive income in section 9.1. Revenue

Impairment testing of goodwill and intangible assets with indefinite and finite useful lives

Reasons why the matter was determined to be a key audit matter:
Testing goodwill and intangible assets with indefinite and finite useful lives for potential impairment was a key audit matter as the valuations depend heavily on the estimate of future cash flows and the discount rate used and have a material effect on the consolidated financial statements.

Auditor’s response:
To assess the appropriateness of the fair values determined by the executive directors we examined the underlying processes and controls used to determine fair values as well as substantive audit procedures. We also consulted valuation specialists regarding the underlying valuation models both in terms of clerical accuracy and the methods used. In this context, we examined whether the

budgets reflect general and industry-specific market expectations and compared the valuation parameters used for the estimates of the fair values - in particular the estimated growth rates, the weighted average cost of capital rates and the tax rates - with market data in the public domain and assessed compared to significant assumptions. In order to assess the adherence to budgets, we also performed a comparison with historical planning data and the actual results on a spot check basis.

To be able to assess a possible impairment risk in one of the main assumptions changed, we also carried out sensitivity analyses. From our audit procedures we have no reservations regarding the recoverability of goodwill and intangible assets with indefinite and finite useful lives.

Reference to related disclosures:
For information about the accounting policies used in connection with the impairment testing of goodwill and intangible assets with indefinite and finite useful lives, we refer to the disclosures in the notes to the financial statements in the section Notes on the consolidated statement of financial position - intangible assets in No. 8.1.

Determination of the fair value of contingent purchase price payments (earn-out agreements)

Reasons why the matter was determined to be a key audit matter:
The contingent purchase price payments and reimbursement claims from acquisitions accounted for in the group are valued at the respective fair values, changes to which are disclosed through profit or loss in the statement of comprehensive income. The determination of the fair value of subsequent purchase price payments depends on a number of variables. In some cases, the fair values are based on actual values and in others on estimates based on sales planning of the coming year.

The subsequent purchase price payments are also governed by share price and share index developments.

The calculation of the fair value of the subsequent purchase price adjustments and their accounting treatment (Feedo) and the accounting treatment of the compensation agreement (Bebitus) was a significant audit matter in our audit.

Auditor’s response:
In our audit, we examined the contractual basis as well as the underlying parameters used to determine the fair values taking various inputs into account. We considered the underlying processes and controls in connection with the determination of the purchase price payments. We examined whether the estimates are in line with general and industry-specific expectations. The parameters used such as sales planning and the discount rate used was analyzed to determine whether these are in line with general and industry specific market expectations. We also considered the sensitivity analyses of the fair values against a change in significant assumptions prepared by the company.

Our audit procedures regarding the accounting treatment of the earn out arrangements did not lead to any reservations.

Reference to related disclosures:
For information about the accounting policies applied for the calculation of the fair values of the contingent subsequent purchase price payments (earn-out arrangements), we refer to the disclosures in the notes to the consolidated financial statements in section 6. Explanations for the subsequent accounting of acquisitions.

Other information

The executive directors are responsible for the other information:

- Declaration of the legal representatives and
- Corporate Governance in the annual report 2017.

The supervisory board is responsible for the following other information:

- The report of the supervisory board 2017.

Our opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the executive directors and the supervisory board for the consolidated financial statements and the group management report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB, and the IFRSs as a whole as published by the International Accounting Standards Board (IASB) and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group.

In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's responsibilities for the audit of the consolidated financial statements and of the group management report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sec. 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) and in addition observing the ISA will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, as the case may be the override of internal control;
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other legal and regulatory requirements

Further information pursuant to Art. 10 of the EU Audit Regulation
We were elected as auditor by the Annual General Meeting on 2 June 2017. We were engaged by the Supervisory Board on 24 August 2017. We have been the group auditor of windeln.de SE without interruption since fiscal year 2012.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Art. 11 of the EU Audit Regulation (long-form audit report).

German Public Auditor responsible for the engagement
The German Public Auditor responsible for the engagement is Ralf Bostedt.

SERVICE

SERVICE

1. Glossary

Site visits

We define Site Visits as the number of series of page requests from the same device and source in the measurement period and include visits to our online magazine. A visit is considered ended when no requests have been recorded in more than 30 minutes. The number of site visits depends on a number of factors including the availability of the products we offer, effectiveness of our marketing campaigns and the popularity of our online shops. Measured by Google Analytics.

Mobile Visit Share

We define Mobile Visit Share (in % of Site Visits) as the number of visits via mobile devices (smartphones and tablets) to our mobile optimized websites and mobile apps divided by the total number of Site Visits in the measurement period. We excluded visits from China because the most common online translation services on which most of our customers who order for delivery to China rely to translate our website content are not able to do so from their mobile devices. Measured by Google Analytics.

Mobile Orders

We define Mobile Orders (in % of Number of Orders) as the number of orders via mobile devices to our mobile optimized websites and mobile apps divided by the total Number of Orders in the measurement period. We have excluded orders from China. Measured by Google Analytics.

Active Customers

We define Active Customers as the number of unique customers placing at least one order in the 12 months preceding the end of the measurement period, irrespective of returns.

Number of orders

We define Number of Orders as the number of customer orders placed in the measurement period irrespective of returns. An order is counted on the day the customer places the order. Orders placed and orders delivered may differ due to orders that are in transit at the end of the measurement period or have been cancelled. Every order which has been placed, but for which the products in the order have not been shipped (e.g., the products are not available or the customer cancels the order), is considered "cancelled".

Average Orders per Active Customer

We define Average Orders per Active Customer as Number of Orders divided by the number of Active Customers in the last 12 months.

Orders from repeat customers

We define Orders from Repeat Customers as the number of orders from customers who have placed at least one previous order, irrespective of returns.

Share of Repeat Customer Orders

We define Share of Repeat Customer Orders as the number of orders from Repeat Customers in the last twelve months divided by the Number of Orders in the last twelve months.

Gross Order Intake

We define Gross Order Intake as the aggregate Euro amount of customer orders placed in the measurement period minus cancellations. The Euro amount includes value added tax and excludes marketing rebates.

Average Order Value

We define Average Order Value as Gross Order Intake divided by the Number of Orders in the measurement period.

Returns (in % of Gross Revenues from Orders)

We define Returns (in % of Gross Revenues from Orders (until Q1 2017 in % of Net Merchandise Value)) as the returned amount in Euro divided by Gross Revenues from Orders in the measurement period. From Q2 2016 onwards including Bebitus and Feedo returns.

Gross Revenues from Orders are defined as the total aggregated Euro amount spent by our customers minus cancellations but irrespective of returns. The Euro amount does not include value added tax. As the Gross Revenues from Orders do not exclude returns and include all marketing rebates it is more reasonable to use this KPI for the return rate calculation than the Net Merchandise Value. The change of the calculation logic has no material impact on the reported return rate. Therefore, the calculation has been changed accordingly from Q2 2017 onwards.

Adj. Fulfilment Cost Ratio

We define Adj. Fulfilment Cost Ratio as Adjusted Fulfilment Costs divided by revenues for the measurement period. Fulfilment costs consist of logistics and warehouse rental expenses which are recognized within selling and distribution expenses in the consolidated statement of profit and loss. Adjusted fulfilment costs exclude costs and income in connection with the reorganization of warehouse locations. In 2017, costs related to the closure of the Swiss location and income from the release of provisions for onerous contracts are adjusted. In 2016, costs in connection with the reorganization of the Spanish warehouse were adjusted.

Marketing Cost Ratio

We define Marketing Cost Ratio as Marketing Costs divided by revenues for the measurement period. Marketing Costs, which are recognized within selling and distribution expenses, mainly consist of advertising expenses, including search engine marketing, online display and other marketing channel expenses, as well as costs for the marketing tools of the Group.

Adjusted Other SG&A Expenses

We define Adjusted Other SG&A Expenses as Adjusted Other SG&A Expenses divided by revenues. The Other SG&A Expenses are selling and distribution Expenses, excluding Marketing Costs and Fulfilment costs, and administrative expenses as well as other operating income and expenses. Adjusted Other SG&A Expenses exclude expenses and income in connection with share-based compensation, expansion and reorganization as well as expenses for purchased intangible assets. In 2016, also expenses for company-law restructuring and ERP system change were excluded.

Operating contribution

We define operating contribution as adjusted gross profit exluding marketing costs and adjusted fulfilment costs. The adjustments of gross profit mainly relate to costs for share-based compensation.

2. Financial Calendar

Publication of the full year 207 result:	March14, 2018
Publication of the first quarter results 2018:	May 09, 2018
Annual General Meeting 2018:	June 25, 2018
Publication of the half year results 2018:	August 09, 2018
Publication of the nine months results 2018:	November 08, 2018

3. Imprint

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Concept, text, layout and design
windeln.de SE

Picture credits
Fotolia, iStock

Statement relating to the future
This annual report contains statements that relate to the future and are based on assumptions and estimates made by the management of windeln.de SE. Even if the management is of the opinion that these assumptions and estimates are appropriate, the actual development and the actual future results may vary from these assumptions and estimates as a result of a variety of factors. These factors include, for example, changes to the overall economic environment, the statutory and regulatory conditions in Germany and the EU and changes in the industry.

windeln.de AG makes no guarantee and accepts no liability for future development and the actual results achieved in the future matching the assumptions and estimates stated in this interim report.

It is neither the intention of windeln.de SE nor does windeln.de SE accept a special obligation to update statements related to the future in order to align them with events or developments that take place after this report is published.

The annual report is available in English. If there are variances, the German version has priority over the English translation. It is available for download in both languages at corporate.windeln.de.





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