Westwing Group GmbH

Berlin

Consolidated Financial Statements and Group Management Report

31 December 2015

Westwing Group GmbH
Berlin

Consolidated Financial Statements

31 December 2015

Translation from the German language

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Consolidated Income Statement

For the period from 1 January to 31 December 2015 and 2014

TEUR	**Notes**	**2015**	**2014**
Revenue	4	219,194	183,332
Cost of sales		(126,617)	(104,036)
Gross profit		**92,578**	**79,296**
Fulfilment expenses		(69,628)	(56,753)
Marketing expenses		(31,491)	(36,171)
General and administrative expenses		(48,262)	(48,925)
Other operating expenses	7	(1,450)	(2,194)
Other operating income	7	951	1,315
Operating result		**(57,302)**	**(63,432)**
Finance costs	8	(1,852)	(1,935)
Finance income	8	10	60
Other financial result	8	(2,374)	(6,824)
Financial result		(4,215)	(8,699)
Result before income tax		**(61,517)**	**(72,131)**
Income tax expense	24	(166)	(85)
Result for the year		**(61,683)**	**(72,216)**
Loss attributable to:			
Owners of the Company		(53,079)	(63,600)
Non-controlling interests		(8,604)	(8,616)
Result for the year		**(61,683)**	**(72,216)**

Consolidated Statement of Comprehensive Income

For the period from 1 January to31 December 2015 and 2014

TEUR	**2015**	**2014**
Result for the year	**(61,683)**	**(72,216)**
Other comprehensive income:		
Items that subsequently will be reclassified to the income statement:		
Exchange translation differences of foreign operations	3,167	6,412
Other comprehensive income for the year, net of tax	**3,167**	**6,412**
Attributable to:		
Owners of the Company	2,692	5,674
Non-controlling interests	475	738
Total comprehensive loss for the year	**(58,516)**	**(65,804)**
Attributable to:		
Owners of the Company	(50,387)	(57,926)
Non-controlling interests	(8,129)	(7,878)
Total comprehensive loss for the year	**(58,516)**	**(65,804)**

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Consolidated Statement of Financial Position

TEUR	Notes	31/12/2015	31/12/2014
Assets			
Non-current assets			
Property, plant and equipment	9	6,104	5,348
Intangible assets	10	2,608	1,489
Trade and other receivables	11	2,467	1,278
Total non-current assets		**11,179**	**8,115**
Current assets			
Inventories	12	14,500	12,604
Trade and other receivables	11	5,763	9,857
Other assets	14	2,645	1,731
Cash and cash equivalents	0	18,674	20,699
Total current assets		**41,581**	**44,891**
Total assets		**52,760**	**53,006**
Equity/(deficit)			
Share capital	15	92	81
Share premium	15	210,343	155,111
Other reserves	15	17,279	13,661
Retained earnings	15	(215,403)	(161,809)
Other comprehensive income (OCI) reserve		9,138	6,554
Equity/(deficit) attributable to the owners of the Company		**21,448**	**13,598**
Non-controlling interests		(33,187)	(27,565)
Total equity/(deficit)		**(11,739)**	**(13,967)**
Non-current liabilities			
Borrowings	17	-	1,708
Finance lease liabilities	18	-	1,365
Other liabilities	19	10,542	11,696
Provisions	20	296	296
Total non-current liabilities		**10,837**	**15,065**
Current liabilities			
Borrowings	17	1,708	3,249
Finance lease liabilities	18	-	268
Trade payables and accruals	19	32,981	30,713
Customer prepayments	19	9,115	10,060
Other liabilities		8,331	6,240
Provisions	20	1,527	1,378
Total current liabilities		**53,662**	**51,908**
Total liabilities		**64,499**	**66,973**
Total equity and liabilities		**52,760**	**53,006**

Consolidated Statement of Changes in Equity

TEUR	Notes	Share capital	Share premium	Other re-serves	Retained earnings	Other compre-hensive income (OCI) reserve	Total	Non-controlling interests	Total equity
		Attributable to the owners of the Company							
As at 1 January 2014		**74**	**122,285**	**7,161**	**(98,498)**	**880**	**31,902**	**(20,172)**	**11,730**
Result for the year		-	-	-	(63,600)	-	**(63,600)**	(8,616)	**(72,216)**
Other comprehensive income for the year		-	-	-	-	5,674	**5,674**	738	**6,412**
Total comprehensive income for the year		**-**	**-**	**-**	**(63,600)**	**5,674**	**(57,926)**	**(7,878)**	**(65,804)**
Issue of share capital	15	7	32,826	-	-	-	**32,833**	-	**32,833**
Share-based compensation	16	-	-	6,500	-	-	**6,500**	429	**6,929**
Acquisitions / disposals of non-controlling interest / other		-	-	-	289	-	**289**	56	**345**
As at 31 December 2014 / 1 January 2015		**81**	**155,111**	**13,661**	**(161,809)**	**6,554**	**13,598**	**(27,565)**	**(13,967)**
Result for the year		-	-	-	(53,079)	-	**(53,079)**	(8,604)	**(61,683)**
Other comprehensive income for the year		-	-	-	-	2,692	**2,692**	475	**3,167**
Total comprehensive income for the year		**-**	**-**	**-**	**(53,079)**	**2,692**	**(50,387)**	**(8,129)**	**(58,516)**
Issue of share capital	15	11	55,232	-	-	-	**55,243**	-	**55,243**
Share-based compensation	16	-	-	3,596	-	-	**3,596**	1,867	**5,464**
Acquisitions / disposals of non-controlling interest / other		-	-	22	(515)	(109)	**(602)**	640	**38**
As at 31 December 2015		**92**	**210,343**	**17,279**	**(215,403)**	**9,138**	**21,448**	**(33,187)**	**(11,739)**

Consolidated Statement of Cash Flows

TEUR	Notes	2015	2014
Cash flows from operating activities:			
Result before income tax		(61,517)	(72,131)
Adjustments for:			
Depreciation and impairment of property, plant and equipment	9	1,744	1,446
Amortization and impairment of intangible assets	10	972	1,257
Loss/(gain) on disposal of property, plant and equipment		79	-
Share-based compensation expenses	16	4,641	13,797
Fair value loss on financial liabilities		4	144
Finance income	8	(10)	(60)
Finance costs		1,847	1,791
Result from closure of subsidiary		(329)	415
Other non-cash related adjustments		2,356	6,922
Changes in provisions and pensions		234	753
Cash effective operating loss before changes in working capital		(49,979)	(45,666)
Adjustments for changes in working capital:			
Changes in trade and other receivables and prepayments		1,248	(4,154)
Changes in inventories		(2,626)	(7,350)
Changes in trade and other payables		6,121	20,431
Cash used in operations		**(45,237)**	**(36,739)**
Interest received		10	60
Interest and other finance charges paid		(1,847)	(1,733)
Tax paid		(315)	-
Net cash flows used in operating activities		**(47,390)**	**(38,412)**
Investing Activities:			
Proceeds from sale of property, plant and equipment		14	-
Purchase of property, plant and equipment		(4,384)	(2,863)
Purchase of intangible assets		(2,000)	(1,819)
Net cash flows used in investing activities		**(6,370)**	**(4,682)**
Financing activities:			
Proceeds from shareholder funding		55,240	37,835
Proceeds/(Repayment) of borrowings		(3,249)	(2,697)
Payments of finance lease liabilities		(152)	(313)
Net cash flows from financing activities		**51,839**	**34,825**
Net change in cash and cash equivalents		**(1,920)**	**(8,269)**
Effect of exchange rate fluctuations on cash held		(105)	(779)
Cash and cash equivalents at 1 January	13	20,699	29,747
Cash and cash equivalents at 31 December		**18,674**	**20,699**

1. General information

The consolidated financial statements of Westwing Group GmbH (referred to as the "Company" or "Westwing") and its subsidiaries (together referred to as the "Group") for the financial year ended 31 December 2015 were authorised for issue by management to the shareholders meeting according to IAS 10 on 31 March 2016.

The Group's principal business activity is the operation of an eCommerce shopping club for home and living products. By offering the products for a limited timeframe only, Westwing is able to offer its customers up to 70 % discount compared to the supplier's recommended retail price. Since February 2015, Westwing operates the new online shop WestwingNow, which offers certain products on a permanent basis.

The Company was incorporated in 2011 and is registered at Berlin District Court, Germany, under the number HRB 136693. The company is headquartered in Dingolfinger Str. 2, 81673 Munich, Germany. As of 31 December 2015, the Group operated in 14 countries (Germany, Austria, Switzerland, Italy, Brazil, Spain, the Netherlands, France, Poland, Russia, Belgium, Kazakhstan, Czech Republic and Slovakia) and consisted of 28 legal companies, which are all integrated in these financial statements.

2. Summary of significant accounting policies

2.1. Basis of preparation

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

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented. Changes to accounting standards which had to be applied for the first time during the financial year 2015 had no impact on the financial statements.

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

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

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

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

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

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

2.2. New standards, amendments and interpretations

This section details new standards and amendments issued, but not effective for periods starting on 1 January 2015 which will be effective for later periods.

The following table summarizes the respective new standards and amendments and the expected effects on the Group. Changes of new standards and amendments which are still analysed and might have an effect on the Group are explained below the table.

		IASB Mandatory application	Adoption by the EU by 31/12/2015	Expected Effects
	Annual improvements of International Financial Reporting Standards – 2012-2014 cycle	1/7/2016	Yes	No significant effects
IFRS 15	Revenue from Contracts with Customers	1/1/2018	No	Effects are still analysed
IFRS 9	Financial instruments (July 2014)	1/1/2018	No	Effects are still analysed
IFRS 16	Leases	1/1/2019	No	Effects are still analysed
IAS 12	Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses	1/1/2017	No	No significant effects
IAS 7	Amendments to IAS 7: Disclosure Initiative	1/1/2017	No	No significant effects

IFRS 15 'Revenue from contracts with customers' was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS (IAS 18 Revenue, IAS 11 Construction Contracts, IFRIC 13 Customer Loyalty Programs, IFRIC 15 Agreements for Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers and SIC 31 Revenue-Barter Transactions). Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted, in case the EU will not change the mandatory effective date in its ongoing endorsement process. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

IFRS 9 'Financial instruments' was issued in July 2014 and reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted, in case the EU will not change the mandatory effective date in its ongoing endorsement process. Retrospective application is required, but comparative information is not compulsory. The Group is currently assessing the impact of IFRS 9 and plans to adopt the new standard on the required effective date.

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

2.3. Consolidation

2.3.1. Scope of consolidation

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

As at 31 December 2015, the Company controls 20 domestic (2014: 20). In addition, the Company indirectly controls seven foreign subsidiaries as of 31 December 2015 (2014: ten). The composition of and changes to the Group are detailed in Note 27.

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

2.3.2. Subsidiaries

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

2.3.3. Non-controlling interests (NCI)

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

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

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

2.3.4. Disposal of subsidiaries

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

2.4. Foreign currency translation

Functional and presentation currency

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

Transactions and balances

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

Group companies

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

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

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

Value of EUR 1	Assets and liabilities Spot rates		Income and expenses Cumulative average rates	
	31/12/2015	**31/12/2014**	**2015**	**2014**
Brazil Real	4.31	3.22	3.74	3.11
Russian Rubel	80.67	72.34	68.77	51.93
Polish Zloty	4.26	4.27	4.18	4.19

2.5. Revenue recognition

Westwing generates revenue primarily from the sale of goods through its retail website. Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of promotional discounts, marketing vouchers, rebates and return allowances. Revenue is recognised net of value added taxes. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when the risks and rewards of the inventory have passed, which is generally when the goods have been delivered. As the customer mostly pays upon placing the order online, the amount paid is recognised as deferred income until the products are delivered. The amount deferred as at 31 December 2015 is shown separately in the statement of financial position and is generally referred to as advance payments from customers.

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

2.6. Expenditure

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

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

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

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

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

Included within the financial result are interest income and interest and other financial expenses as well as foreign exchange gains and losses (other financial result).

2.7. Property, plant and equipment

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

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

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

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

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

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

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

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

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

2.8. Intangible assets

2.8.1. Purchased trademarks, brands, licenses and software

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

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

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

2.8.2. Internally generated software

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

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

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development
- and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

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

2.8.3. Amortization

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

Asset	Useful lives in years
Internally generated software	3
Acquired software and licences	2 to 5
Trademarks	Shorter of 15 years or the life of the trademark agreement

2.8.4. Impairment of property, plant and equipment and intangibles

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

2.9. Leases

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

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

At 31 December 2015 the Group did not have any finance leases.

2.10. Inventories

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

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

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

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

2.11. Financial assets

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

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

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

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

2.12. Impairment of financial assets

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

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

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

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

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

2.13. Financial liabilities

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

Financial liability at fair value through profit or loss

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

The loan agreement entered into with Kreos Capital IV (Luxembourg) S.à r.l. (referred to as “Kreos”) entail a warrant agreement whereby Kreos has the option to be provided with shares in Westwing upon execution of the warrant. The warrant is attached to the borrowings, but is not closely related to that instrument. Following further analysis, it was classified as a financial liability and accounted for separately to the loan. To Westwing, the cost of the warrant is heavily dependent on the development of Westwing's share price. Given the connection to the moving share price and the variability of the value of the instruments, the definition of a derivative under IAS 39 was met and the warrants have been classified as financial liabilities held-for-trading. Consequently it is revalued to fair value at each reporting date.

Upon initial recognition of such liabilities, any transaction costs incurred are recognized in the consolidated income statement.

Financial liabilities at amortized cost

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

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

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

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

2.14. Fair value measurement

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

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

2.15. Cash and cash equivalents

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

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

2.16. Share capital

The share capital is fully paid in.

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

2.17. Provisions for liabilities and charges

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

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

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

2.18. Share-based compensation

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

Equity-settled transactions

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

Cash-settled transactions

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

2.19. Current and deferred income taxes

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

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

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

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

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

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

3. Critical accounting estimates and judgements

3.1. Overview

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

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

Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year are disclosed below.

3.2. Allowance for obsolete inventories (Note 12)

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

3.3. Income taxes (Note 24)

Deferred income tax

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

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

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

3.4. Share-based compensations (Note 16)

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

3.5. Provision for returns (Note 20)

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

4. Analysis of revenue

Revenue for the year is comprised of the following:

TEUR	**2015**	**2014**
Revenue from the sale of products	208,587	174,098
Revenue from shipping charges	12,391	11,348
Revenue from payment fees	657	539
Other revenue	1,378	374
Sales reductions	(3,819)	(3,027)
Total	**219,194**	**183,332**

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

TEUR	**2015**	**2014**
DACH	61,707	45,717
Rest of Europe	111,855	90,058
Emerging Markets	45,632	47,557
Total	**219,194**	**183,332**

The geographical regions are defined as follows:

- "DACH" includes revenue recognised in Germany, Switzerland and Austria.
- "Rest of Europe" includes revenue recognised in Spain, Italy, France, Poland, Czech Republic, Slovakia, Belgium and the Netherlands.
- "Emerging markets" includes revenue recognized in Brazil, Russia and Kazakhstan.

5. Additional information on income and expenses

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

TEUR	**2015**	**2014**
Rent and other operating lease expenses	5,603	4,493
Depreciation and amortization	2,716	2,704
Loss / (gain) from revaluation of a financial liability	4	144
Auditor's remuneration		
Audit cost according to Sec. 314 para. 1 No. 9a HGB	434	901
Of which for previous periods TEUR 105		
Other assurance services according to Sec. 314 para. 1 No. 9b	9	-
Other services according to Sec. 314 para. 1 No. 9d HGB	10	-

6. Personnel expenses

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

TEUR	**2015**	**2014**
Wages, salaries and other short-term employee benefits	47,132	34,080
Share-based compensation expenses	4,641	13,797
Social security and similar expenses	10,525	6,599
Total	**62,298**	**54,476**

In 2015, Westwing employed on average 1,713 employees (2014: 1,262 employees) in the following functional areas:

	2015	**2014**
Fulfilment	1,017	846
Marketing	139	79
Administration	557	337
Total	**1,713**	**1,262**

The categorisation of employees into the functional areas was amended in the financial year 2015 to adapt to the structure of the consolidated income statement.

7. Other operating income and expenses

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

TEUR	**2015**	**2014**
Rental income	153	465
Income from release of provisions	140	124
Income from closure of a subsidiary	329	-
Other operating income	328	726
Total	**951**	**1,315**

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

TEUR	**2015**	**2014**
Bad debt expenses	613	1,147
Expenses from closure of a subsidiary	-	415
Other operating expenses	836	632
Total	**1,450**	**2,194**

8. Financial result

The financial result for the year comprises the following:

TEUR	**2015**	**2014**
Finance income:		
Interest income	10	60
Total finance income	**10**	**60**
Finance costs:		
Interest expenses	(1,740)	(1,633)
Finance lease interest	(49)	(99)
Other financial expenses	(63)	(202)
Total finance costs	**(1,852)**	**(1,935)**
Net finance result	**(1,842)**	**(1,875)**
Other financial result:		
Currency exchange gains	7,850	1,337
Currency exchange losses	(10,224)	(8,161)
Other financial result	**(2,374)**	**(6,824)**
Financial result	**(4,215)**	**(8,699)**

Interest expenses in parts relate to the Kreos loan agreement, which carries an interest rate of 12.48%. In addition, interest expenses include the fees resulting from credit card payments in Brazil.

Other financial expenses include transaction costs for the Kreos loan as well as the impact of the remeasurement of the Kreos warrant to its fair value.

9. Property, plant and equipment

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

TEUR	Leasehold improvements	Furniture, fittings and equipment	Assets under finance lease	Prepayments on PPE	Total
Cost at 1 January 2014	917	2,315	2,099	-	5,331
Additions	488	2,586	36	1	3,110
Exchange adjustment	(94)	(497)	-	-	(591)
Cost at 31 December 2014	1,311	4,404	2,135	1	7,851
Accumulated depreciation at 1 January 2014	491	711	149	-	1,351
Depreciation charge	451	739	256	-	1,446
Exchange adjustment	(92)	(150)	(52)	-	(294)
Accumulated depreciation at 31 December 2014	850	1,300	353	-	2,503
Carrying amount at 31 December 2014	**461**	**3,104**	**1,781**	**1**	**5,348**

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

In 2015, the company bought out the steel racks and other warehouse equipment that it had previously leased under a finance lease agreement from the lessor. The assets were purchased at value of the remaining lease liability of TEUR 1,542. The useful economic lives of the respective assets were not affected by this transaction.

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

10. Intangible assets

The intangible assets employed by the business are analysed below:

TEUR	**Software and licenses**	**Trademarks**	**Internally generated intangibles**	**Intangibles under development**	**Total**
Cost at 1 January 2014	263	164	1,023	-	1,450
Additions	127	133	111	1,412	1,782
Exchange adjustment	(34)	(36)	(30)	-	(99)
Cost at 31 December 2014	356	261	1,104	1,412	3,133
Accumulated depreciation at 1 January 2014	110	22	389	-	522
Amortization charge	16	2	484	-	503
Impairment charge	-	-	-	754	754
Exchange adjustment	(4)	(1)	(130)	-	(135)
Accumulated depreciation at 31 December 2014	123	24	743	754	1,644
Carrying amount at 31 December 2014	**233**	**237**	**361**	**658**	**1,489**

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

Additions to internally generated intangibles of TEUR 1,711 as well as to intangibles under development of TEUR 18 mainly include additional development costs in respect of the following two IT systems:

- OMS (TEUR 1,362) - a warehouse management system that provides an interface with the Westwing website and order management system
- Partner Portal (TEUR 335) - a platform that facilitates the interaction with suppliers including purchase order and drop shipment management

Both development projects have been separated into identifiable project phases, characterised by the development of new functionalities. Upon the completion and roll out of a functionality, the related costs are transferred into internally generated intangibles, at which point amortization over the useful life of three years commences.

There were no impairments in the financial year 2015 (2014: TEUR 754 in respect of a production software for which development was cancelled in the same year).

11. Trade and other receivables

Trade and other receivables are comprised of the following:

TEUR	**31/12/2015**	**31/12/2014**
Trade receivables	4,989	9,442
Rent deposits	2,558	1,429
Other receivables	684	264
Trade and other receivables, net	**8,230**	**11,135**
Of which:		
Non-current	2,467	1,278
Current	5,763	9,857

Trade receivables are shown net of an allowance for impairment losses of TEUR 1,467 (2014: TEUR 1,403). The other classes within trade and other receivables do not contain impaired assets.

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

TEUR	**31/12/2015**	**31/12/2014**
Up to 3 months	4,453	7,042
3 months to 1 year	1,129	3,313
1 to 5 years	873	488
over 5 years	-	-
Trade receivables (gross)	**6,455**	**10,845**
Allowance for impairment	(1,467)	(1,403)
Trade receivables (net)	**4,989**	**9,442**

Trade receivables of TEUR 4,989 (2014: TEUR 9,442) are considered to be neither past due nor impaired.

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

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

TEUR	**2015**	**2014**
At 1 January	1,403	721
Provided in the year	279	1,367
Utilised in the year	-	(682)
Reversed in the year	(215)	(3)
At 31 December	**1,467**	**1,403**

The need for impairment mainly arises from realised debtor risks.

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

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

The Company does not hold any collateral as security.

Disclosures in respect of financial assets and liabilities can be found in notes 21 and 22.

12. Inventories

Inventories and prepayment on inventories have developed as follows:

TEUR	**31/12/2015**	**31/12/2014**
Inventories	13,812	11,801
Prepayments on inventories	687	803
Total	**14,500**	**12,604**

Inventories available for sale representing products and merchandize are stated net of an allowance for inventory write off amounting to TEUR 2,404 (2014: TEUR 1,868).

13. Cash and cash equivalents

Cash and cash equivalents are comprised of the following:

TEUR	**31/12/2015**	**31/12/2014**
Cash at bank and in hand	18,674	15,699
Short-term bank deposits	0	5,000
Total	**18,674**	**20,699**

14. Other assets

TEUR	**31/12/2015**	**31/12/2014**
Prepaid expenses	2,098	552
VAT receivables	155	876
Other tax receivables	171	115
Other receivables	221	188
Total	**2,645**	**1,731**

15. Share capital and reserves

Share capital

An overview of how share capital developed is as follows:

In thousands	**Number of outstanding shares**
1 January 2014	**74**
Issue of ordinary shares in 2014	7
At 31 December 2014 / 1 January 2015	**81**
Issue of ordinary shares in 2015	11
At 31 December 2015	**92**

The total authorised number of ordinary shares as per 31 December 2015 is 91,702 shares (31 December 2014: 81,091 shares) with a nominal value of EUR 1 per share. The nominal value of all ordinary shares is fully paid.

In 2015, the nominal capital was increased twice:

- On 23 December 2014 an increase of the nominal capital of EUR 4,818 including a share premium of TEUR 25,187 was agreed with existing shareholders. Of the EUR 4,818, EUR 3,071 were received before the year-end, which were accounted for as other non-financial liabilities in 2014. The remaining payments were received in January and February 2015 and the capital increase was reflected in the financial statements in this financial year.
- On 24 March 2015 5,793 shares with a nominal value of EUR 5,793 and a share premium of TEUR 30,284 were issued.
- The Group incurred costs in respect of capital increases of TEUR 239, which were deducted from equity.

In 2014, the nominal capital was increased four times:

- On 10 January 2014 3,675 shares with a nominal value of EUR 3,675 and a share premium of TEUR 15,994 were issued.
- On 29 January 2014 2,297 shares with a nominal value of EUR 2,297 and a share premium of TEUR 9,997 were issued.
- On 25 February 2014 1,148 shares with a nominal value of EUR 1,148 and a share premium of TEUR 4,996 were issued.
- On 7 May 2014 460 shares with a nominal value of EUR 460 and a share premium of TEUR 2,002 were issued.
- The Group incurred costs in respect of capital increases of TEUR 163, which were deducted from equity.

Reserves

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

In 2015 the Group changed the presentation of equity-settled share options, for which the settling will occur in a Group entity other than the one intended, to the effect that non-controlling interest is no longer shown.

The other comprehensive income reserve represents foreign currency differences arising from the translation of foreign operations into the presentational currency. Amounts may be recycled through profit and loss upon disposal of such foreign operations.

16. Share-based compensation

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

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

Share awards

The table below provides an overview of the movements in the equity-settled share-based compensation awards related to shares in the Company or the shares in the Company’s subsidiaries:

TEUR	**2015**	**2014**
Number of unvested awards outstanding at the beginning of the period	3,578	10,013
Forfeited during the period	-	916
Vested during the period	2,401	5,519
Number of unvested awards outstanding at the end of the period	**1,177**	**3,578**
Total number of vested awards outstanding at the end of the period	18,619	16,218

Share options and phantom options

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

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

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

Share options	2015		2014	
	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price	Number of Options
Outstanding at 1 January	1,241.44	7,017	1.00	325
Granted during the year	825.88	1,161	1,261.83	6,967
Forfeited during the year	935.97	450	292.00	275
Outstanding at 31 December	1,196.79	7,728	1,241.44	7,017

Phantom options	2015		2014	
	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price	Number of Options
Outstanding at 1 January	129.46	6,514	78.53	6,043
Granted during the year	1,456.22	272	570.41	821
Forfeited during the year	2,047.30	73	284.49	350
Outstanding at 31 December	162.36	6,713	129.46	6,514

Out of the total 14,441 outstanding options (2014: 13,531 options), 8,843 options (2014: 6,403 options) were vested. Out of the vested options, 3,069 were exercisable (2014: 1,469 options). No options were exercised in 2015 (2014: no options).

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

Share options		**Weighted Average Exercise price per share options**		**Share Options**	
Grant Date	**Vesting Date**	**2015**	**2014**	**2015**	**2014**
2011	2015	-	-	-	-
2012	2016	-	-	-	-
2013	2017	1.00	1.00	325	325
2014	2018	1,317.48	1,301.68	6,368	6,692
2015	2019	829.76		1,035	-
		1,196.79	**1,241.44**	**7,728**	**7,017**

Phantom options		**Weighted Average Exercise price per share options**		**Share Options**	
Grant Date	**Vesting Date**	**2015**	**2014**	**2015**	**2014**
2011	2015	53.91	53.91	5,407	5,407
2012	2016	328.65	292.00	74	88
2013	2017	292.00	292.00	191	198
2014	2018	480.83	570.41	779	821
2015	2019	1,312.23		262	0
		162.36	**129.46**	**6,713**	**6,514**

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

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

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

The weighted average grant date fair value for the equity-settled share options granted during 2015 was TEUR 0.9 (2014: TEUR 1.8). The inputs used in the measurement of the fair values of these share options at the date of grant are summarized below:

Grant date	**2015 (Subsidiary shares)**	**2015 (Company shares)**	**2014 (Subsidiary shares)**	**2014 (Company shares)**
Share price (EUR)	976 – 36,866	3,817 – 3,983	0 - 33,570	3,075 - 3,817
Option exercise price (EUR)	260.70 – 15,428	4,352 – 5,228.69	1.00 - 4,558.00	1.00 - 4,352.09
Volatility based on ex-pected life	51 %	51 %	51% - 53%	52% - 54%
Expected life	4.00	4.00	1.58 - 4.00	1.66 - 3.83
Dividend yield	nil	nil	nil	nil
Risk-free rate	0 %	0 %	-0.1% - 0.3%	0.0% - 0.4%
Fair value per option (EUR)	727 – 3,050	732 – 1,286	0 - 33,569	651 - 3,074

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

The weighted average fair value for the phantom options outstanding as of 31 December 2015 was TEUR 1.8 (2014: TEUR 1.8). The inputs used in the measurement of the fair values of the cash-settled phantom options at the reporting dates are summarized below:

Balance sheet date	**2015 (Subsidiary shares)**	**2015 (Company shares)**	**2014 (Subsidiary shares)**	**2014 (Company shares)**
Share price (EUR)	1,863	3,889	300 - 2,120	3,817
Weighted Average Option exercise price (EUR)	478.17	5,228.69	76.29	4,352.09
Volatility based on ex-pec-ted life	48.1% - 53.4 %	51 %	48% - 55%	51% - 54%
Expected life	2.08 – 2.50	4.00	1.00 - 3.75	1.58 - 3.83
Dividend yield	nil	nil	nil	nil
Risk-free rate	0 %	0 %	-0.1% - 0%	-0.1% - 0%
Fair value per option (EUR)	1,089 – 1,783	650 - 877	299 - 2,119	924 - 1,148

Share-based compensation expenses and liabilities

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

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

In 2015, the total share-based compensation expense recognized amounted to TEUR 4,641 (2014: TEUR 13,797), which includes expenses in respect of social security of TEUR 335. The total expense recognised includes expenses due to equity-settled share-based compensation awards of TEUR 5,464 (2014: TEUR 6,929).

In contrast, the revaluation of cash-settled options as of 31 December 2015 resulted in a gain of TEUR 1,154. The liability recognised for the cash-settled options as of 31 December 2015 therefore amounts to TEUR 10,542 (2013: TEUR 11,696). The total intrinsic value at the end of the period of liabilities for phantom options that had vested by the end of the period amounts to TEUR 10,327 (2014: TEUR 9,818). These vested phantom options are only exercisable upon the occurrence of an exit event.

17. Borrowings

The Company has the following borrowings as of 31 December:

TEUR	**31/12/2015**	**31/12/2014**
Non-current portion		
Loans	0	1,708
Current portion		
Loans	1,708	3,249
Total borrowings	**1,708**	**4,957**

The Kreos loan agreement from 12 April 2013 allowed the Company to draw up to TEUR 10,000 in individual tranches. Two tranches of each TEUR 5,000 were drawn on 1 July 2013 and on 27 August 2013 respectively and paid out for an amount of TEUR 9,328 after holding back the first and last scheduled payments on both tranches. Both tranches have to be repaid within 36 months of being granted. The loan carries interest at 12.48%. Transaction costs of TEUR 125 were payable upon the closing of the loan agreement. Furthermore an "End of Loan Payment" of 1.75% of the amount of each tranche drawn is payable at the end of the term of the individual tranche. The loan is measured at amortized cost.

The loan agreement entered into entails a warrant agreement whereby Kreos has the option to be given shares in Westwing upon execution of the warrant. Specifically, for a payment of TEUR 1,250 Kreos will receive equity, whereby the price per share can be chosen by Kreos, but has to be in line with the price agreed in any financing round since the grant of the loan. The warrant constitutes a derivative financial instrument and is measured at fair value through profit or loss.

Furthermore, Kreos and Westwing also signed various agreements to provide securities to Kreos related to the given loan:

- Any trade receivables up to the amount of the outstanding obligation act as a security
- Cash and cash equivalents up to 110% of the outstanding obligation act as a security
- Any Intellectual Property Rights held by Westwing act as a security
- All inventory held by the Group acts as a security to cover the outstanding obligation

While the agreement was entered into by the Westwing Group GmbH, a separate agreement was signed by the Westwing Home & Living GmbH, which states that the Westwing Home & Living GmbH will act as a guarantor of the loan.

In 2015, the Group entered into a bridge loan agreement with Rocket Internet SE and Kinnevik Online AB in order to cover short term financing needs. The agreement allows the Group to draw up to TEUR 12,000 in two individual tranches and carries an interest rate of between 5% and 15% depending on the length of the draw down. As at 31 December 2015 the Group had not drawn down either of the tranches.

18. Finance lease liabilities

Until June 2015, the Group leased steel racks and other warehouse equipment under finance lease agreements. On 30 June 2015, the Group bought out the steel racks and other warehouse equipment from the lessor at the value of the remaining lease liability of TEUR 1,542. The useful economic lives were not affected by the transaction.

The present value of finance lease liabilities is as follows:

TEUR	**31/12/2015**	**31/12/2014**
No later than 1 year	-	268
Later than 1 year and no later than 5 years	-	803
Later than 5 years	-	562
Total	**-**	**1,633**

Undiscounted minimum lease payments are presented in note 25.

19. Current and non-current liabilities

Current and non-current liabilities comprise of the following:

TEUR	**31/12/2015**	**31/12/2014**
Trade payables	24,378	23,878
Accruals	8,602	6,834
Customer prepayments	9,155	10,060
Liabilities to employees	15,224	15,437
VAT liabilities	2,453	813
Tax liabilities	259	312
Other financial liabilities	861	885
Other non-financial liabilities	76	484
Payments from shareholders for capital increase	-	3
Total	**60,969**	**58,709**
Of which current	50,427	47,013
Of which non-current	10,542	11,696

Liabilities to employees of TEUR 15,224 (2014: TEUR 15,437) includes the liability for cash-settled share-based compensations of TEUR 10,542 (2014: TEUR 11,696). Please refer to note 16.

Disclosures in respect of financial assets and liabilities can be found in notes 21 and 22.

20. Provisions

Movements in provisions for liabilities and charges are as follows:

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

Analysis of total provisions:

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

The provision for returns of TEUR 1,308 (2014: TEUR 1,096) is recorded in order to capture the risk of products being returned within the legal period. The provision is calculated per country at an estimated return rate of between 4.0% and 14.3%.

The restoration provision relates to the obligation to reinstate the leasehold property to its former condition at the end of the lease term. The timing of the cash outflow depends on the timing of vacating the leased property, in respect of which the provision was recorded. Since the relevant leases have renewal clauses, the timing is currently uncertain but likely to be over one year.

The provision for legal claims represents the best estimate of the obligation in connection with claims against the Group. The increase in the provision of TEUR 127 is due to a labour claim in Brazil and trade-mark infringement claims. The timing of the cash outflow relating to the legal claims provision is uncertain but likely to be within one year.

21. Financial risk management

21.1. Financial risk factors

21.1.1. Overview

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

21.1.2. Market risk

The Group is exposed to market risks. Market risks arise from open positions in foreign currencies (currency risk), and interest bearing assets and liabilities (interest rate risk), which are sensitive to general and specific market movements. Management monitors such risks on an ongoing basis to ensure that exposure stays within certain limits. However, this approach does not prevent losses in the event of more significant market movements.

Sensitivities to market risks included below are based on a change in one factor while keeping all other factors constant. In practice, this is unlikely to occur as changes in certain factors may be correlated.

Currency risk

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

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

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

TEUR	**31/12/2015**	**31/12/2014**
Polish Zloty strengthening/ (weakening) by 10%	+94 / (94)	+880 / (880)
Russian Rubel strengthening/ (weakening) by 10%	+1,692 ((1,692)	+1,092 / (1,092)
Swiss Franc strengthening/ (weakening) by 10 %	+21 / (21)	+71 / (71)
Total	**+1,807 / (1,807)**	**+2,042 / (2,042)**

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

Interest rate risk

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

21.1.3. Credit risk

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

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

TEUR	**Note**	**31/12/2015**	**31/12/2014**
Trade and other receivables	11		
Trade receivables (net)		4,989	9,442
Other financial receivables		3,241	1,693
Cash and cash equivalents	0		
Cash in hand		13	24
Bank balances		18,661	15,675
Short-term bank deposits		-	5,000
Total on-balance sheet exposure		**26,903**	**31,834**

Trade and other receivables

Due to the Group's type of business, exposure to credit risk with counterparties is limited because in the majority of transactions cash is received at the time of the sale or on delivery in the case of payment when the goods are delivered. Trade and other receivables are hence mainly limited to receivables from payment service providers and credit card companies.

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

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

Cash and cash equivalents

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

TEUR	**31/12/2015**	**31/12/2014**
AAA	-	-
AA- to AA+	66	-
A- to A+	3	17,832
BBB- to BBB+	17,871	691
Lower than BBB- rated	354	-
Unrated	368	2,152
Total	**18,661**	**20,675**

Concentration of credit risks

Considering the Group´s set-up, the Group´s credit risk is towards many different parties and there is therefore no concentration of credit risk.

21.1.4. Liquidity risk

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

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

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

The table below shows the Group's non-derivative financial liabilities as at 31 December 2015 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, except for finance lease liabilities, where the effect between the discounted and undiscounted cash flows is immaterial.

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

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

TEUR	**Less than 3 months**	**Between 3 months and 1 year**	**Between 1 year and 5 years**	**Over 5 years**	**Total**
Liabilities					
Borrowings	993	837	-	-	1,830
Trade payables	23,512	866	-	-	24,378
Accruals	8,602	-	-	-	8,602
Total future payments, including future principal and interest payments	**33,107**	**1,703**	**-**	**-**	**34,810**

The maturity analysis of financial liabilities at 31 December 2014 is as follows:

TEUR	**Less than 3 months**	**Between 3 months and 1 year**	**Between 1 year and 5 years**	**Over 5 years**	**Total**
Liabilities					
Borrowings	993	2,979	2,161	-	6,133
Finance lease liabilities	4	279	970	775	2,028
Trade payables	23,422	268	188	-	23,878
Accruals	6,834	-	-	-	6,834
Total future payments, including future principal and interest payments	**31,253**	**3,526**	**3,319**	**775**	**38,873**

21.2. Capital management

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

21.3. Fair value estimation

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

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

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

	31/12/2015				**31/12/2014**			
TEUR	**Level 1**	**Level 2**	**Level 3**	**Carrying value**	**Level 1**	**Level 2**	**Level 3**	**Carrying value**
Liabilities								
Other financial liabilities:								
Derivative financial instrument	-	-	834	834	-	-	831	831
Total liabilities	**-**	**-**	**834**	**834**	-	-	**831**	**831**

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

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

The carrying amount of the Kreos loan which is measured at amortized cost approximates its fair value, as market conditions have not changed significantly.

Included in the derivative financial instruments category is a warrant under which Kreos, the loan provider, has the right to be provided with shares in Westwing upon execution of the warrant. The fair value of the warrant is calculated using a Black Scholes model. The valuation is based on data, where the inputs are based on unobservable market data (Level 3). Inputs of market data into the Black Scholes model is in line with the inputs for the valuation of share-based compensation under IFRS 2.

22. Financial instruments by category

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

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

Loans and receivables:

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

		31/12/2014
Cash and cash equivalents	13	20,699
Trade and other receivables	11	11,135
Total		**31,834**

Financial liabilities:

		31/12/2015		
TEUR	**Note**	**Financial liabilities at amortized cost**	**Financial liabilities at fair value through profit or loss – held-for-trading**	**Total**
Trade payables	19	24,378	-	24,378
Accruals	19	8,602	-	8,602
Other financial liabilities				
Other payables		27	-	27
Derivative financial instrument		-	834	834
Finance lease liabilities*	18	-	-	-
Borrowings	17	1,708	-	1,708
Total		**34,715**	**834**	**35,549**

		31/12/2014		
TEUR	**Note**	**Financial liabilities at amortized cost**	**Financial liabilities at fair value through profit or loss – held-for-trading**	**Total**
Trade payables	19	23,878	-	23,878
Accruals	19	6,834	-	6,834
Other financial liabilities				
- Other payables		54	-	54
- Derivative financial instrument		-	831	831
Finance lease liabilities*	18	1,633	-	1,633
Borrowings	17	4,957	-	4,957
Total		**37,356**	**831**	**38,187**

* The categories in this disclosure are determined by IAS 39. Finance leases are mostly outside the scope of IAS 39, but they remain within the scope of IFRS 7. Therefore, finance leases have been shown separately (Note 18).

Income and expenses from financial instruments

The total impact on profit and loss from financial instruments for the year ended 31 December 2015 was a loss of TEUR 2,455 (2014: a loss of TEUR 3,021).

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

TEUR	**Category**	**2015**	**2014**
Interest income	Loans & Receivables	10	60
Interest expense	Liabilities at amortized cost	(1,740)	(1,633)
Finance lease interest	IAS 17	(49)	(99)
Valuation of Kreos warrant	Held for trading	(4)	(144)
Other financial expenses	Liabilities at amortized cost	(59)	(58)
Impairment of financial assets	Loans & Receivables	(613)	(1,147)
Total		**(2,455)**	**(3,021)**

23. Material partly-owned subsidiaries

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

	Country of incorporation and operation	**31/12/2015 NCI in %**	**31/12/2014 NCI in %**
Westwing Home & Living GmbH	Germany	29.37%	29.37%
Westwing Comércio Varejista Ltda.	Brazil	24.02%	25.14%

TEUR	**31/12/2015**	**31/12/2014**
Accumulated balances of material non-controlling interest:		
Westwing Home & Living GmbH	(17,866)	(15,454)
Westwing Comércio Varejista Ltda.	(4,070)	(3,541)
Loss allocated to material non-controlling interest:		
Westwing Home & Living GmbH	(3,828)	(4,252)
Westwing Comércio Varejista Ltda.	(892)	(442)

No dividends were paid to non-controlling interest for neither company in 2015 or 2014.

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

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

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

Summarized statement of profit or loss for the year ended 31 December 2014:

TEUR	**Westwing Home & Living GmbH**	**Westwing Comércio Varejista Ltda.**
Revenue	52,087	29,092
Result for the period	(12,158)	(2,251)
Total comprehensive income or (loss)	(12,158)	(2,251)

Summarized statement of financial position as of 31 December 2015:

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

Summarized statement of financial position as of 31 December 2014:

TEUR	**Westwing Home & Living GmbH**	**Westwing Comércio Varejista Ltda.**
Cash and cash equivalents	2,004	21
Trade and other receivables	3,432	4,446
Inventory	3,300	2,382
Total current assets	8,847	6,875
Total non-current assets	2,734	701
Total current liabilities	(51,141)	(9,250)
Total non-current liabilities	(13,057)	-

Summarized cash flow information for the year ended 2015:

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

Summarized cash flow information for the year ended 2014:

TEUR	**Westwing Home & Living GmbH**	**Westwing Comércio Varejista Ltda.**
Operating cash flow	(4,174)	(701)
Investing cash flow	967	(378)
Financing cash flow	3,090	1,000
Net increase / (decrease) in cash and cash equivalents	**(117)**	**(79)**

24. Income taxes

Current income taxes

The major components of current income tax expense for the year ended 31 December 2015 and 2014 are:

TEUR	**2015**	**2014**
Current income tax:		
Current income tax charge / gain	166	85
Income tax expense reported in the income statement	**166**	**85**

Reconciliation of the expected tax income as the accounting profit multiplied by Germany's domestic corporate and trade tax rate for 2015 (2014) to the tax expenses recognized in income statement:

TEUR	**2015**	**2014**
Result before income tax	**(61,517)**	**(72,131)**
Applicable tax rate	32.975%	32.975 %
At domicile applicable tax rate expected tax income	(20,285)	(23,785)
Unrecognised tax losses	16,463	15,643
Non-deductible expenses and other	1,335	5,475
Effect on different tax rate of foreign operations	2,321	2,752
Income tax expenses reported in the income statement	**166**	**85**

Deferred taxes

The Group's deferred taxes relate to the following:

	Consolidated statement of financial position		Consolidated income statement	
TEUR	**31/12/2015**	**31/12/2014**	**2015**	**2014**
Software	(613)	(59)	(554)	132
Differences in tax depreciation	1	1	0	(38)
Finance lease capitalisation	0	(11)	11	89
Inventories	25	31	(6)	(156)
Receivables	(499)	24	(524)	(19)
Provisions	58	6	52	(154)
Cut off and provisions increase	233	(215)	449	1,296
Stock options	795	223	572	1,150
Deferred taxes expense (income)			**0**	**0**
Net deferred tax assets / (liabilities)	**0**	**0**		
Reflected in the statement of financial position as follows:				
Deferred tax liabilities	0	0		
Deferred tax assets	0	0		
Deferred tax liabilities, net	0	0		

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

Deferred tax assets on temporary differences in the amount of TEUR 3,749 (2014: TEUR 4,135) and on tax loss carry forwards in the amount of TEUR 185,972 (2014: TEUR 145,241) have not been recognized as they may not be used with sufficient probability to offset taxable profits. They have arisen in companies that have been loss making for some time, and there are no other tax planning opportunities or other evidence of recoverability in the near future.

The Group has tax losses which arose in different jurisdictions of TEUR 185,972 (2014: TEUR 145,241) that are available for offsetting against future taxable profits of the companies in which the losses arose as follows:

TEUR	**2015**	**2014**	**Restrictions on tax losses carried forward**
Germany	(61,846)	(49,785)	No
Brazil	(15,914)	(12,496)	No
France	(23,308)	(16,599)	No
Italy	(23,079)	(17,424)	No
Netherlands	(13,748)	(8,589)	No
Poland	(12,903)	(8,434)	Yes
Russia	(20,399)	(15,855)	Yes
Spain	(14,775)	(8,729)	Yes
Other (UK/SE/AU/TR)	-	(7,330)	No
Total	**(185,972)**	**(145,241)**	

The following tax losses expire as indicated:

TEUR	**2015**	**2014**	**Restrictions on tax losses carried forward**
Poland	(12,903)	(8,434)	Exp 2017-2020
Russia	(20,399)	(15,855)	Exp 2022-2025
Spain	(14,775)	(8,729)	Exp 2030-2033
Total	**(48,077)**	**(33,018)**	

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

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

25. Other financial commitments

Operating lease commitments

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

TEUR	**31/12/2015**	**31/12/2014**
Not later than 1 year	2,792	1,921
Later than 1 year and not later than 5 years	5,929	7,722
Later than 5 years	-	-
Total	**8,721**	**9,643**

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

Major operating lease agreements include the lease of the headquarter office in Munich, Dingolfinger Straße and the warehouse in Großbeeren. Both lease agreement are non-cancellable until their respective maturity dates.

Finance lease commitments

Until June 2015, the Group leased various items of plant and machinery under finance lease agreements, which were subsequently bought out.

Future minimum lease payments under finance leases are as follows:

TEUR	**31/12/2015**	**31/12/2014**
Not later than 1 year	-	283
Later than 1 year and not later than 5 years	-	970
Later than 5 years	-	775
Total	**-**	**2,028**

Contingent liabilities

From time to time the Group is involved in claims incidental to its line of business, for which the likelihood of a negative outcome is not considered to be more likely than not.

As at 31 December 2015 the Group has provided guarantees amounting to TEUR 6,643 (2014: TEUR 3,644) to its vendors.

26. Balances and transactions with related parties

Following review of the requirements, all ventures of Rocket Internet, a shareholder of the Company, are classified as related parties of the whole Group.

As of 31 December 2015 and 2014, the outstanding balances with such related parties were as follows:

TEUR	**31/12/2015**	**31/12/2014**
Gross amount of trade receivables	26	2
Trade and other payables	18	100

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

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

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

TEUR	**2015**	**2014**
Sales of goods and services	62	36
Purchases of goods and services	524	467

Key management compensation

Key management includes 8 executives (2014: 8 executives). The compensation paid or payable to key management for employee services is shown below:

TEUR	**2015**	**2014**
Employee benefits:		
Salaries (short-term employee benefits)	1,201	1,049
Share-based compensation	79	1,994
Total	**1,280**	**3,043**

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

27. Subsidiaries

The Group consolidated the following direct subsidiaries at 31 December:

Name	Country of in-corporation and place of business	Registered office	Proportion of owner-ship interests held 31/12/2015	Proportion of owner-ship interests held 31/12/2014
Westwing Home & Living GmbH	GER	Munich	70.63	70.63
Westwing Commercial GmbH	GER	Berlin	100.00	100.00
Juwel 183. V V UG	GER	Berlin	100.00	100.00
Westwing Spain Holding UG	GER	Berlin	94.12	94.12
Westwing France Holding UG	GER	Berlin	94.56	94.56
Westwing Italy Holding UG	GER	Berlin	88.76	88.00
Westwing Netherlands Holding UG	GER	Munich	87.12	87.12
Tekcor 1. V V UG	GER	Bonn	90.96	90.96
Brillant 1256. GmbH & Co. Dritte Verwaltungs KG	GER	Berlin	88.03	88.03
Brillant 1256. GmbH	GER	Berlin	100.00	100.00
Bambino 65. V V UG	GER	Berlin	100.00	100.00
Bambino 68. V V UG	GER	Berlin	93.72	93.72
Bambino 66. V V UG	GER	Berlin	93.92	93.92
wLabels GmbH	GER	Berlin	100.00	100.00
VRB GmbH & Co. B-156 KG	GER	Berlin	90.00	90.00
VRB GmbH & Co. B-157 KG	GER	Berlin	75.99	74.86
VRB GmbH & Co. B-160 KG	GER	Berlin	90.00	90.00
VRB GmbH & Co. B-165 KG	GER	Berlin	90.00	90.00
VRB GmbH & Co. B-166 KG	GER	Berlin	90.00	90.00
VRB GmbH & Co. B-167 KG	GER	Berlin	90.00	90.00

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

Name	Country of incor-poration and place business	Registered office	Proportion of ownership interests 31/12/2015	Proportion of ownership interests 31/12/2014
WW E-Services Iberia S.L.	ES	Barcelona	94.12	94.12
WW E-Services Italy S.r.l.	IT	Milan	88.76	88.00
WW E-Services France SAS	FR	Paris	94.56	94.56
WW E-Services UK Ltd.	UK	London	Deconsolidated	93.92
Westwing Home and Living Poland S.P.Z.O.O.	PL	Warsaw	90.96	90.96
WW E-Services The Netherlands B.V.	NL	Amsterdam	87.12	87.12
Westwing Comercio Varejista Ltda.	BR	Sao Paulo	75.98	74.85
Westwing Hizmet Teknolojileri Bilisim Pazarlama Ticaret Limited Sirketi	TR	Istanbul	Deconsolidated	90.05
Westwing Russia OOO	RU	Moscow	88.03	88.03

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

The following subsidiaries were deconsolidated due to liquidations in the year ended 2015:

- WW E-Services UK Ltd.
- Westwing Hizmet Teknolojileri Bilisim Pazarlama Ticaret Limited Sirketi

The deconsolidation of these two entities resulted in an income of TEUR 329, of which an income of TEUR 290 resulted from the reclassification of exchange translation differences from other comprehensive income into profit and loss.

The following subsidiaries were deconsolidated due to liquidations in the year ended 2014:

- WW E-Services Sweden AB
- VRB GmbH & Co B-158 KG

The deconsolidation of these two entities resulted in a loss of TEUR 415.

28. Events after the balance sheet date

The following events arose after the close of the fiscal year 2015 with a significant impact on Westwing's future net assets, financial position and results of operations:

In March 2016, the Group signed an addendum to the bridge loan agreement from December 2015 which extends the draw down period until 30 June 2016.

Westwing Group GmbH
Berlin

Group Management Report

31 December 2015

Translation from the German language

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1. Basic information on Westwing

1.1 Business model

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

The Munich-based Company was founded in 2011 by Delia Fischer, Georg Biersack, Matthias Siepe, Stefan Smalla and Tim Schäfer. Today, the Company is among the category leaders in most of its 14 geographic markets, namely Germany, Austria and Switzerland (generally referred to as DACH), Italy, France, Spain, the Netherlands, Belgium, Poland, Czech Republic and Slovakia as well as the Emerging Markets Brazil, Russia and Kazakhstan.

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

In order to become a member, one has to register with Westwing and provide an email address to get access to the website, which is only open for members. Until the end of December 2015, the number of members has grown to more than 26.4m and continues to grow.

Members are acquired organically via PR, social media, editorial content, referrals and search engine optimization ('SEO') as well as via paid channels such as search engine marketing ('SEM'), Facebook, display marketing, partner programs and selectively TV. For members gained via paid channels, Westwing only pays at the time of registration and shows predictable returns on marketing spend afterwards. Approximately 80% of orders on a given month are generated by repeat customers with a strong engagement on the Westwing sites, stimulated by inspiring content and attractive merchandise.

In order to keep its members excited and convert them to loyal repeat customers, Westwing focuses on customer relationship management ('CRM') and inspiring member communication. In daily sales campaigns that are communicated through daily newsletters, Westwing presents its growing member base a broad selection of products at very attractive prices. The products offered are limited in quantity and time, and come with a discount of up to 70% compared to the recommended retail price.

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

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

[1] Westwing defines "members" as persons, who register their email address on its website

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

On a global basis, Westwing has more than 5,000 suppliers, ranging from exclusive and well-known brands to young and emerging local labels. All products are hand-selected by Westwing's experienced style directors, who carefully put together inspiring campaigns through an ever-fresh collection of curated home goods. The Company's local buying teams combine in-depth local sourcing expertise and a profound integration with suppliers, thus enabling efficient global sourcing in a fragmented market. As Westwing places the order with the supplier only after the customer has made her order from an ongoing campaign, the Company is able to leverage its' business model with 'zero inventory' to offer a huge product selection and pass on the savings on warehouse costs directly to the customers.

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

As a complementary business, Westwing launched the new online shop WestwingNow in Germany in February 2015, offering a permanent assortment of home accessories and furnishings. No prior registration as a member is required to access the website. The club model is geared towards spontaneous purchases, and while people enjoy making such purchases, many people also look for specific products that they need at a given point in time. WestwingNow is designed to attract such individuals as it offers products on a permanent basis. WestwingNow provides 'shoppable looks' to inspire customers on how its products offered could fit in their home: Interior experts of Westwing design and furnish entire rooms in different styles and all products featured in these looks are available for purchase on the website, directly from the picture of the corresponding look. While the launch of WestwingNow as additional, complementary model required significant up-front investment in team, technology and inventory, there are many synergies as well as mutually reinforcing effects between the two business models, in particular customer sharing (>80% of active WestwingNow customers are club members) and infrastructure.

1.2 Company structure

The Company is headed by its holding company, the Westwing Group GmbH, a limited liability company registered at Berlin District Court, Germany, under the number HRB 136693. The Company is headquartered at Dingolfinger Str. 2, 81673 Munich, Germany.

At the end of 2015, 28 companies were part of Westwing (2014: 30), which are fully consolidated in the accounts of the Westwing Group.

Over the last years, various capital increases took place. By the end of 2015, more than 20 investors such as Rocket Internet, Kinnevik, Summit Partners or AI European Holdings have invested capital into Westwing.

1.3 Strategy and Objectives

Westwing's overall strategy and objectives are closely linked to its mission ('To inspire and make every home a beautiful home') and its vision ('Be the worldwide leader in Home & Living eCommerce by creating the most inspiring customer experience and the most loved brand'). Westwing is an eCommerce company

for Home & Living products, where customers get inspiration for current and future trends. The Company aims to provide its customers with a well-curated spectrum of beautiful products at attractive prices.

Source of inspiration for Home & Living

Westwing sees itself as a source of inspiration for Home & Living. Consequently, Westwing provides a full range of product categories to its customers. Among the product categories offered are: decoration and accessories, textiles, lighting, table- and kitchenware, small and large furniture, outdoor and garden, rugs, art, as well as other miscellaneous Home & Living products.

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

Superior customer acquisition

In order to increase revenue and market share, Westwing focuses on growth of its active customer base. This is achieved by keeping existing members and customers engaged through excitement and inspiration so that they regularly return to the website and eventually make purchases, and by investing in the acquisition of new members through organic marketing and paid marketing channels.

Strong supplier relationships

Another key element for the Company's success is an efficient and proactive supplier management. Westwing has developed an international network of more than 5,000 suppliers. The relationship is a win-win situation for both: while Westwing has access to local brands, the suppliers have the chance to approach customers outside their usual reach. As such, Westwing provides a unique retail platform for local and international Home & Living brands. The Company offers suppliers a unique marketing opportunity via its daily newsletters, reaching millions of members, presenting them in a beautiful way on its websites and giving them access to the fast-growing eCommerce/mCommerce (mobile commerce) sales channel. Enabling suppliers to gain instant access to up to 14 markets is a huge competitive advantage that Westwing actively promotes within the existing supplier base in order to gain new inspiring brands for future campaigns. This set-up works especially well in the Home & Living market, since the market is local and highly fragmented, making Westwing truly unique in its ability to connect suppliers with consumers, and distribute domestic brands internationally.

Exceptional execution

A key success factor for any online retailer is its logistics capabilities. Westwing has built an international logistics network with seven logistics centers across Europe, Russia and Brazil. These logistics centers are set-up to meet the requirements not only of an eCommerce company, but also of a company with international merchandise movements. The supply chain is coordinated in a way that Westwing acquires products locally, has them transported to the next local logistics centers and distributes within the group's warehouses as applicable. A customized warehouse management software that was first introduced in 2014 to three warehouses, was amended for additional functionality to perfectly support Westwing's business. Roll-out to further warehouses was prepared in 2015 and will be implemented in 2016.

Westwing's experienced management team and the combination of strong data analytics, proficient creatives and experts on style are a key factor to achieve its objectives. In addition, Westwing aims to be an attractive employer. Since the beginning, the Company has invested in its workforce and by now has established a highly experienced, diversified staff profile that has all the knowledge necessary to provide a high-quality service offering every single day.

1.4 Research and Development

For an eCommerce company like Westwing it is of utmost importance to develop an online presence that transmits the inspiration that Westwing wants to present, while at the same time being agile and flexible.

In 2012, the Company licensed a webshop-software that addresses these requirements. Since then, Westwing has invested in this software and developed it further so that the software continues to cover the growing internal and external business requirements. An important development in 2013 was the expansion of its software landscape to address the increasing focus on mobile platforms. Westwing provides apps for iOS and Android devices as well as smartphone- and tablet-optimized sites. In autumn 2015 a new version of the iOS App was introduced, which equally supports iPhone and iPad devices. Additionally, Westwing developed a software called "Partner Portal" that supports and facilitates the cooperation with its suppliers as well as allows analyses with regards to suppliers, campaigns and products. The software also facilitates an increase of drop-shipment transactions where suppliers ship directly to customers without going through Westwing's warehouses.

To maintain its software architecture, Westwing has built a skilled in-house technology team that provides central support to all countries. During the fiscal year 2015, Westwing's internally generated intangibles and intangibles under development increased by EUR 1.1m to a total of EUR 2.1m.

2. Economic developments (Wirtschaftsbericht)

2.1 Overall situation of the economy and industry-specific conditions (Gesamtwirtschaftliche und branchenbezogene Rahmenbedingungen)

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

Marco-economically, Europe developed favorably in 2015: Real GDP is estimated to grow by 1.5%, providing favorable business climate in general. In Germany, Westwing's largest market, real GDP growth was also 1.5%, continuing the positive development of the previous years. However, in some markets, there were macro-economic headwinds: Real GDP in 2015 is estimated to decline by -3.7% in Russia and by -3.8% in Brazil, reflecting high economic uncertainty in these markets[2]. Furthermore, the corresponding currencies, the Brazilian Real and the Russia Ruble devaluated compared to the Euro in 2015. Specifically, the Brazilian Real dropped from 0.3105 in 2014 to 0.2319 in 2015 (equals 25%) and the Russian Ruble

[2] IMF World Economic Outlook (WEO) Update, January 2016

dropped from 0.0138 in 2014 to 0.0124 in 2015 (equals 10%). The impact of this development became in particular visible when translating the corresponding revenues from local currency to Euro.

The global Home & Living market amounts to approximately EUR 550 billion[3] of which the 14 countries in which Westwing operates cover approximately EUR 200 billion. This market has 720m people[4] and is expected to grow by 4% annually[5], through both online and offline channels. In Germany alone, the furniture market, used as a proxy for the total Home & Living market, grew by 4.2% in 2015[6]. These large numbers show the opportunity for Westwing, as the Home & Living market moves online.

Currently the market for Home & Living products, compared to other retailing categories, does not show a high online penetration yet. However, it is shifting online at a faster pace than many other retail categories. This development is illustrated in recent analyses of the furniture market, considered as the most important reference for Westwing. In 2013, online sales represented only 2.6% of sales in the global furniture market[6]. Of the largest consumer categories that today have potential for immense online penetration, it is amongst the latest and least developed. In Germany, a slightly more mature online market, eCommerce accounted for 6% of sales in the furniture market in 2015[7].

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

- Broader product offering:

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

- Better availability for customers:

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

- Increasing familiarity with the advantages of online retail:

  The general increasing familiarity with the Internet is a driving factor across all customer segments. There are numerous possible reasons for customers' initial reluctance to purchase products online. However, the reputation of online business' success, which first sprang up in the 1990s, has engendered a degree of familiarity with and trust towards using the Internet to purchase products. In addition, the extensive use of social networks also contributes to consumer familiarity to online

[3] Datamonitor, Morgan Stanley, management estimate
[4] International Monetary Fund: World Economic Outlook Database 2013
[5] Datamonitor, Morgan Stanley
[5] Bundesverband des Deutschen Möbel-, Küchen- und Einrichtungsfachhandels (BVDM), January 2016
[6] CSIL survey: eCommerce for the furniture industry
[7] Bundesverband des Deutschen Möbel-, Küchen- und Einrichtungsfachhandels (BVDM), January 2016

shopping, as these networks are used as platforms for marketing of online retailing as well as customer communication.

- Mobile eCommerce (mCommerce):

  As consumers go online, using mobile devices, smartphones and tablets already play a crucial role in the eCommerce purchase decision-making process. The eCommerce turnover via mobile devices was and is growing rapidly, providing users with market transparency and the possibility of anywhere, anytime interaction. This brings new challenges and opportunities for the retail industry and advertisers as the market is available everywhere and always.

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

Although there is certainly competition in the online Home & Living sector, no player has yet taken a clear lead in the market at global or regional levels as has occurred in other categories, e.g. in consumer electronics, books or fashion and shoes. Westwing management expects that the Home & Living market will experience a similar fast development as other consumer categories that are already more advanced in online penetration.

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

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

2.2 Business development (Geschäftsverlauf)

Westwing continued its positive development in 2015, which is also evidenced by its KPIs. The Company was able to grow revenue to EUR 219.2m in 2015. This represents growth of 19.6% on the previous year (2014: EUR 183.3m). Adverse FX development in Brazil and Russia affected Westwing’s revenue growth despite the existing inflation. At 2014 FX rates, Westwing would have approximately EUR 12m higher revenue (i.e. EUR 231m in total for 2015) and revenue growth of 26% for 2015.

Furthermore, Westwing was able to improve profitability metric EBITDA significantly in 2015. Adjusted EBITDA Margin[8], which is among the key metrics management uses to assess the profitability, improved from -25.6% in 2014 to -22.8% in 2015. In Q4/2015, the seasonally strongest quarter in the Home & Living market, Westwing even reached single-digit negative Adjusted EBITDA margin (-6.4%). As a highlight, Adjusted EBITDA in December 2015 was positive on group level for the first time. Free cash flow (ie the sum of operating and investing cash flow) was positive in Q4 and in each single month of the quarter.

Management believes that further strengthening of Westwing’s market positioning in existing markets, strong customer loyalty and successful acquisition of new customers were driving this growth and improvement in profitability. Westwing always focused on carefully selecting beautiful products and presenting them in the most inspiring way to its customers. Management sees this is a key differentiating factor from competitors and as main driver for Westwing’s customer loyalty. Among other factors, new and exciting products

[8] EBITDA Margin before share-based payments

with inspiring photos, engaging content and improvements to the website have all contributed to successful customer acquisition and loyalty.

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

The customer base increased to 926k Active Customers[9] in 2015 (2014: 788k). Over 85% of the customers were women. Due to the high level of customer loyalty, repeat customers account for approximately 80% of orders each month.

An increasing share of Westwing members visits the site using Westwing's Apps, which had been downloaded 2.8m times by the end of 2015. In December 2015, 50% of revenue was generated via mobile devices such as smartphones and tablets.

Westwing continued to invest into infrastructure and technology in 2015. In particular, Westwing laid the foundation for a successful start of WestwingNow through investments in technology, fulfillment and team. Westwing focused on simplification and standardization of processes and systems across the entire supply chain, resulting in cost savings and improved delivery quality.

Westwing is not yet profitable as management also considers strategic long-term priorities. Consequently, it further invested into measures that will drive future growth, such as WestwingNow, and technology / tooling, which will help to bring down costs in the future. At the same time, profitability significantly improved during the year 2015 as evidenced by only a single-digit loss in Adjusted EBITDA margin and positive free cash flow in Q4 2015.

2.3 Economic situation (Lage)

Westwing's favorable development and ongoing improvement across many key dimensions in 2015 is visible in the key performance indicators.

2.3.1. Results of operations (Ertragslage)

The Condensed Income Statement and other financial data shows steady growth in revenue and improvement in margin.

Condensed Income Statement (excluding expenses related to share based payments)

EUR m	2015	2014	Change in %	2015 in % of Revenue	2014 in % of Revenue	Change in %pts
Revenue	**219.2**	**183.3**	**+19.6**	**100.0**	**100.0**	
Cost of sales	-126.6	-104.0	+21.7	-57.8	-56.7	-1.1
Gross Profit	**92.6**	**79.3**	**+16.8**	**42.2**	**43.3**	**-1.1**
Fulfilment expense[10]	-69.7	-55.2	+26.3	-31.8	-30.1	-1.7
Marketing expenses	-31.5	-36.2	-13.0	-14.4	-19.7	+5.3

[9] All members that have made at least one order with Westwing within the last 12 months

General and administrative expenses[10]	-43.5	-36.7	+18.5	-19.8	-20.0	+0.2
Other operating expenses	-1.4	-2.2	-36.4	-0.6	-1.2	+0.6
Other operating income	0.9	1.3	-30.8	0.4	0.7	-0.3
EBIT Adjusted	**-52.6**	**-49.6**	**+6.0**	**-24.0**	**-27.1**	**+3.1**
Depreciation and Amortization	-2.7	-2.7	0.0	-1.2	-1.5	+0.3
EBITDA Adjusted[10]	**-49.9**	**-46.9**	**+6.4**	**-22.8**	**-25.6**	**+2.8**

Revenues for the year are comprised of the following:

TEUR	**2015**		**2014**	
Revenue from the sale of products	208,587	95.2%	174,098	95.0%
Revenue from shipping charges	12,391	5.7%	11,348	6.2%
Revenue from payment fees	657	0.3%	539	0.3%
Other revenue	1,378	0.6%	374	0.2%
Revenue decrease from the use of vouchers and kindness	(3,819)	-1.7%	(3,027)	-1.7%
Total	**219,194**		**183,332**	

Compared to prior year, the distribution among the different sources of revenue remained almost constant.

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

TEUR	**2015**		**2014**	
DACH	61,707	28.2%	45,717	24.9%
Rest of Europe	111,855	51.0%	90,058	49.1%
Emerging Markets	45,632	20.8%	47,557	25.9%
Total	**219,194**		**183,332**	

The geographical regions are defined as follows:

- DACH includes revenue recognised in Germany, Switzerland and Austria.
- Rest of Europe includes revenue recognised in Spain, Italy, France, Poland, Czech Republic, Slovakia, Belgium and the Netherlands.
- Emerging markets includes revenue recognised in Brazil, Russia and Kazakhstan.

The development within the allocation of revenues to regions reflects the above-mentioned negative effects from economic growth and foreign exchange rates in the emerging markets.

[10] Due to the adjustment for share-based compensation, the positions Fulfilment expense and general and administrative expenses cannot be reconciled to to the Consolidated Income Statement.Share-based payment expenses in 2015 including social security expenses amounted to EUR 4.6m (2014: 13.8m). The EBITDA including share-based payment expenses in 2015 amounted to EUR -54.6m (2014: -60.7m).

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

Key performance indicators

	2015	2014	Change
Total Members (in m)	26.4	19.5	+35.1%
Active Customers (in k)	926	788	+17.5%
Orders per Active Customer per year	2.8	2.7	+0.6%
Total Orders (in k)	2,547	2,156	+18.2%
Average Order Value (in EUR)	91.8	89.9	+2.2%
GMV[11] (in EUR m)	234	194	+20.7%
Share of Orders via Mobile[12]	50.7%	40.2%	+10.5%pts

Westwing was able to grow revenue to EUR 219.2m, an increase of 19.6% (or approximately 26% at constant 2014 FX) compared to previous year (2014: EUR 183.3m) due to an increase in the number of active customers and loyalty from existing customers across its markets. At the same time a relatively high inflation in Russia (average 15.8%) and Brazil (average 8.9%) resulted in an increase in absolute amounts.

Westwing was able to keep gross profit margin almost stable at 42.2% in 2015 (2014: 43.3%). The difference compared to 2014 was driven by a lower gross margin in Q1 and partially in Q2/2015.

Fulfillment expenses[13] (before share-based payment) as percent of revenue slightly increased by 1.7%pts to 31.8% driven primarily by investments into WestwingNow. These additional costs included in particular personnel and warehouse space for inventory. Parts of these costs were incurred when preparing for the launch of WestwingNow, but no sales were being made yet. The club business, at the same time, slightly reduced fulfilment costs as percentage of revenue, driven by continued localization of logistics and improved operations. These improvements were in particular visible towards the end of the year.

Marketing expenses were consciously reduced to EUR 31.5m (2014: EUR 36.2m). On Westwing's path towards profitability, management focused on those marketing channels with the highest incremental return on investment, thus decreasing TV and several online marketing campaigns. While this allowed a significant reduction of marketing spend, the impact on revenue was limited.

General and Administrative expenses (before share-based payment) decreased by 0.2%pts. In absolute terms, these expenses increased to EUR 43.5m in 2015 (2014: EUR 36.7m), which mainly resulted from higher average FTEs throughout the year.

Management relies on Adjusted EBITDA as key metric to manage the Company's profitability. The Adjusted EBITDA margin improved by 2.8%pts from -25.6% in 2014 to -22.8% in 2015 as a result of the drivers described above.

Gross merchandize volume ('GMV'), defined as product value including all valid orders after cancelations and before returns, increased from EUR 194m in 2014 to EUR 234m in 2015, representing growth of 20.7%. This increase was based on a total of 2.5m orders (2014: 2.2m) made by 926k (2014: 788k) Active Customers. The ongoing growth of 17.5% in Active Customers in 2015 was driven by high loyalty of existing customers and strong acquisition of new customers. The number of orders by Active Customer per year

[11] Gross Merchandize Volume
[12] Share of Orders via Mobile per end of December
[13] Fulfilment expenses include shipping costs

increased slightly to 2.8. Average order value increased to EUR 92 (2014: EUR 90) driven by variation in the product mix. Orders are typically shipped within three to four weeks.

Sales via mobile devices in December 2015 accounted for 50% of revenue, steadily increasing throughout the year. This development is in line with management's observation that mobile channels will become increasingly important over time.

2.3.2. Financial position (Finanzlage)

Westwing's financial position was sustainable in 2015, at all times maintaining sufficient cash reserve.

Condensed Statement of Cash Flows

EUR m	2015	2014
Cash flows from operating activities	-47.4	-38.4
Cash flows from investing activities	-6.4	-4.7
Cash flows from financing activities	51.8	34.8
Net decrease in cash and cash equivalents	-1.9	-8.3
Effect of exchange rate fluctuations on cash held	-0.1	-0.8
Cash and equivalents at 1 January	20.7	29.7
Cash and equivalents at 31 December	**18.7**	**20.7**

In 2015 the Company incurred cash outflows from operating activities of EUR -47.4m (2014: EUR -38.4m). Working capital defined as inventory (including prepayments) plus trade and other receivables less trade payables and customer prepayments has decreased to EUR -21.8m (2014: EUR -18.3m).

Cash flows from investing activities amounted to EUR -6.4m (2014: EUR -4.7m). Westwing invested EUR -4.3m in tangible assets such as IT infrastructure and warehouse equipment and EUR -2.0m in intangible assets, including primarily purchased software and software in development.

Free cash flow (the sum of operating and investing cash flow) was positive in Q4/2015 – this confirms Westwing's successful development towards profitability.

Cash flows from financing activities of EUR 51.8m (2014: EUR 34.8m) resulted mainly from shareholder funding of EUR 55.2m, injecting further liquidity into the Company. These funding rounds have been closed in December 2014 and March 2015, whereas the cash from the December 2014 financing was only received in January and February 2015. Repayments of lease liabilities and borrowings had a negative impact of EUR -3.4m on cash flows from financing activities in 2015.

Westwing always ensured that sufficient liquid funds were available to fund operations for the next months and approached investors with sufficient lead-time ahead. Westwing was able to meet its payment obligations at all times.

In 2015, the Group entered into a bridge loan agreement with Rocket Internet SE and Kinnevik Online AB in order to cover short term financing needs. The agreement allows the Group to draw up to EUR 12m in two individual tranches and carries an interest rate of between 5% and 15% depending on the length of the draw down. As at 31 December 2015 the Group had not drawn down either of the tranches.

2.3.3. Total assets (Vermögenslage)

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

Condensed Statement of Financial Position

EUR m	**2015**	**2015 in % of Total**	**2014**	**2014 in % of Total**	**Change in EUR m**	**Change in %**
Total Assets	52.8	100.0	53.0	100.0	-0.2	-0.4
Non-Current Assets	11.2	21.2	8.1	15.3	3.1	38.3
Current Assets	41.6	78.8	44.9	84.7	-3.3	-7.3
Total Liabilities + Equity	52.8	100.0	53.0	100.0	-0.2	-0.4
Equity	-11.7	-22.2	-14.0	-26.3	2.3	-16.4
Non-Current Liabilities	10.8	20.5	15.1	28.4	-4.3	-28.5
Current Liabilities	53.7	101.7	51.9	97.9	1.8	3.5

Westwing's total assets amounted to EUR 52.8m in 2015, remaining mostly stable compared to the previous year (2014: EUR 53.0m). The Company's assets mainly consist of current assets including inventory, trade receivables as well as cash and cash equivalents.

Current assets accounted for EUR 41.6m in 2015. Cash and equivalent decreased to EUR 18.7m (2014: EUR 20.7m), reflecting the use of funds for strategic initiatives and expansion as described in the sections above. Inventory increased to EUR 14.5m (2014: EUR 12.6m) due to overall revenue growth and launch of WestwingNow which holds parts of its offering available in stock. Trade and other receivables decreased to EUR 5.8m (2014: EUR 9.9m) due to less receivables from payment providers.

Non-current assets mainly consist of property, plant and equipment as well as intangible assets. In 2015, net investments in property, plant and equipment totaled EUR 0.8m while intangible assets, primarily representing purchase of software and capitalization on software development, increased by EUR 1.1m.

Current liabilities increased just slightly by EUR 1.8m in 2015, but given the higher business volume this again shows the constant focus on working capital management. Within this movement trade payables increased from EUR 23.9m in prior year to EUR 24.4m in 2015. Advance payments from customers decreased by EUR 0.9m due to less open customer orders at the end of the year. This was achieved by the above-mentioned improvements in the logistics process and faster processing of orders.

The decrease in non-current liabilities to EUR 10.8m (2014: EUR 15.1m) was mainly driven by loan repayments and reclassification of the outstanding balance to current (EUR 1.7m), purchase of assets previously under finance lease liabilities (EUR 1.4m) and a reduction in other non-financial liabilities with cash settled share-based payments by EUR 1.2m.

The Company's equity increased from EUR -14.0m in 2014 to EUR -11.7m in 2015. The movement was mainly due to negative earnings for the year and capital increases. While a capital increase was agreed on December 23, 2014, it was not reflected in the 2014 financial statements as the cash payment was received in February 2015 only. Another capital increase was executed in March 2015. Other comprehensive income, mainly attributable to foreign exchange impact resulting from currency translations from the Russian ruble to EUR, contributed EUR 9.1m to equity.

2.4 Employees

At the end of December 2015, Westwing employed 1,473 full time equivalents (following: FTEs), which represents a stable number of employees compared to 1,475 FTEs at the end of 2014. According to Westwing definition, one FTE is equivalent to one employee working full-time.

In December 2015 most staff were employed by the Munich-based legal entities Westwing Group GmbH (248 FTEs) and Westwing Home & Living GmbH in charge of the DACH business (253 FTEs), as well as the Brazilian entity (325 FTEs). From a department perspective 454 FTEs worked in Logistics, 281 FTEs in Supply & Buying, 164 FTEs in Style & Presentation, 148 FTEs in Technology, 129 FTEs in Customer Care, 109 FTEs in Marketing and 188 FTEs in Admin.

At Westwing, internationality is considered an important competitive factor. This international character is expressed in the diverse backgrounds of the employees. At the end of 2015 the Company employed more than 50 different nationalities. Likewise, Westwing sees gender diversity as an important factor - 54% of employees of Westwing Group are female.

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

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

- In monthly ‘All Hands’ meetings, management informs the employees about latest developments within the Company and about the progress of ongoing initiatives.
- While ad-hoc feedback is provided on an ongoing basis to every employee, the Company also has a formal review process of two feedback conversations per year.
- On a regular basis, the Company undertakes employee surveys to understand the current atmosphere and gather valuable feedback, which it is committed to act upon in a timely manner.
- Westwing offers internal training courses to its employees to ensure that the right skills are available to move the Company forward. In selected cases, Westwing also offers trainings with external parties.

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

3. Subsequent events (Nachtragsbericht)

Following the conclusion of the 2015 financial year, the following events incurred that have a significant impact on Westwing’s future results of operations, financial position and net assets.

In March 2016, the draw-down period for the bridge loans granted in December 2015 was extended until June 30, 2016. The line of credit can now be drawn-down until 30 June 2016 with a repayment period until June 30, 2017, thus providing Westwing with sufficient funds for its future business.

These additional investments show the faith the investors have in Westwing's business model and plan, and enable the Company to further follow its strategy and vision.

4. Risk and opportunity report (Risiko- und Chancenbericht)

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

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

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

4.1 Risk management system (Risikomanagementsystem)

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

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

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

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

In order to further improve and standardize the company-wide risk management and corporate governance structures, a separate function was created in 2014, in charge of risk management, internal controls and compliance. Westwing established a new set of key controls and had the first international roll-outs in 2015.

4.2 Overview of the risks (Risikobericht)

As any company, Westwing faces risks that could threaten its success as a company. These risks can be split into financial risks, strategic and operational risks and technology risks. The current key risks Westwing was exposed to in 2015 are discussed in this section. However, management recognizes that risks can change and therefore there may be other risks currently deemed insignificant, or yet unknown risks that might have a negative impact on the business in the future.

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

4.2.1. Financial risks (Finanzwirtschaftliche Risiken)

Liquidity risk

A key risk for any company is running out of cash and not being able to meet all its obligations. This risk is even higher if a company is loss making and using more cash than it is earning.

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

Westwing's investors are aware of the Company's current planning and understand that this requires cash. Investors receive regular updates on the Company's investing activities and expected cash in- and outflows and are comfortable with the plans.

Management believes that at the point of approving the financial statements for 2015, the Company had sufficient cash reserves and committed lines of credit to meet all of its imminent and more long-term obligations. The nominal negative equity at year-end had no immediate impact on liquidity as this is primarily driven by the company's negative net working capital as well as accounting effects related to balancing of Share Base Payments for which historically expenses occurred, but no cash outflow. In addition, Westwing has historically proven its capability to raise financing through capital increases and external loans in the market.

Currency risk

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

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

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

4.2.2. Strategic and operational risks (Strategische und operative Risiken)

Competition

In the future, new companies could enter the Home & Living market with the intention to attract the same customers as Westwing or follow a similar approach. This would increase the competition in the relevant market and pose a risk for Westwing. However, given that Westwing has been operating in this industry for over four years the Company has been able to create significant assets: Westwing is THE digital consumer brand for Home & Living eCommerce. Compared to a new entrant, Westwing has access to a large supplier

base, many of which are tied to and process-wise integrated to Westwing. Furthermore, it has 926k Active Customers, an efficient logistics and supply chain set-up, highly experienced and well-trained staff and a customized IT-architecture. All these factors represent barriers of entry for new companies.

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

Lack of customer loyalty

One key risk for Westwing is a lack of loyalty of its customers and members deciding not to make repeat purchases, but instead go to another company providing similar products. Reasons for lack of loyalty can be Westwing specific (e.g. bad customer experience) or driven by external factors such as changes in available disposable income or other changes in general spending preferences.

Westwing closely monitors customer satisfaction based on regular Net Promoter Score (NPS) surveys and behavior of its members, to be able to quickly react to customer feedback and changes in behavior: the Company offers new products on its website, inspires customers with magazine articles, requests feedback from customers on transactions and speak with customers directly as part of customer service.

Quality and reputation

Issues with the quality of the products provided to customers or the delivery process itself can lead to customers getting frustrated and upset with Westwing and will reduce chances of them placing another order. Delays, delivery cancellation and product damages can therefore have a negative long-term effect on Westwing and consequently pose risk.

To address this risk, Westwing maintains close relationships with its suppliers to reduce the number of issues in the supply chain and increase customer satisfaction. The fact that Westwing works with most of its suppliers on a regular basis helps to set up sustainable and efficient processes instead of one-off solutions. While this joint effort to improve quality is certainly the preferred approach, Westwing also legally protects itself against quality or delivery issues in its supplier contracts. If there are recurring issues with a single supplier, Westwing stops business with that company.

Furthermore, Westwing’s warehouse staff is trained to check the inbound quality of each product being delivered, and quality checks of the internal management are part of the supply chain in each warehouse.

Logistics

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

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

Loss of key employees and hiring

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

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

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

4.2.3. Technology risks (IT Risiken)

Website downtime

Westwing's business is solely internet-based and any issues with the functionality of the website or even complete downtime would therefore cause reductions in short-term revenue. Even worse, repeated issues could lead to customer churn and therefore a more severe, long-term negative impact on the entire business.

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

Because of these checks and back-up solutions, the website was online and functional all year 2015 with an average companywide uptime of more than 99.9%.

Data security

As any other company with an online presence and especially companies where customers make payments online and submit personal information, Westwing faces the risk of data security. When placing orders on the website, members submit their addresses to Westwing and payment details like bank account and credit card information to Payment Service Providers through the Westwing interface.

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

In addition, access rights to Westwing's servers are very restricted and only a few accounts with system access exist at all. All changes to the front-end software are mapped out on a test software before going live so that the work with the live system is very limited. Finally, Westwing works with encryption technology, VPN-connections and htaccess to prevent external parties accessing its system without authorization.

Technological progress and user experience

Westwing's sales are exclusively Internet-based and Internet technology is changing rapidly. One of the main technological developments of the last years is purchasing on mobile devices through a mobile version of the website and special applications. Mobile devices create huge extra sales potential, because the products from Westwing are accessible at any time and everywhere. However, the risk arises that the Westwing app and mobile version of the website will not be in line with the newest technological developments. This might lead to an inadequate customer experience, resulting in fewer visits and a decrease in sales as a consequence.

Westwing has an experienced software development department, with several team members dedicated to mobile devices to counter this risk. The tech teams closely monitor the market and latest technological developments. Furthermore, detailed analyses of user patterns and site usage habits take place. Before a new version of the app is launched, comprehensive testing on all relevant devices is performed. All these measures are designed to ensure that Westwing is aware of new market trends and can adapt sales channels and infrastructure accordingly. As mentioned above, a new version of the iOS App, which now supports iPhone and iPad was introduced in autumn 2015.

4.2.4. Risks arising from the use of financial instruments (Risikoberichterstattung in Bezug auf die Verwendung von Finanzinstrumenten)

In 2014 and 2015, Westwing did not acquire or sell any financial instruments that are subject to significant risks.

4.3 Opportunities (Chancenbericht)

While Westwing faces several risks (see above), there are also many opportunities for the Company that have great potential to drive it further forward. Not only will they provide Westwing with the chance to grow, they will also allow Westwing to improve profitability. Such opportunities can generally be grouped into two sections: (1) external opportunities such as market growth and (2) internal opportunities, such as strengthening the brand and expanding into new sectors. This paragraph summarizes these opportunities.

4.3.1. Overall economic opportunities (Gesamtwirtschaftliche Chancen)

One of the key opportunities for Westwing is the growth in eCommerce compared to traditional high-street focused business in the Home & Living market. As mentioned earlier, the expectation is that online-based trading in this sector will grow significantly faster than offline business.

Management believes this trend is due to the following factors:

- Improved product offering: eCommerce is generally better positioned to offer its customers an attractive and varied product offering. Westwing is not bound by store size constraints when it comes to offering customers products and can therefore go far beyond what a high-street shop could offer its customers.
- Round-the-clock availability of products: For many customers, the visit to a traditional high-street Home & Living (especially furniture) shop that meets their needs is very time consuming. More and more people therefore turn to online shopping, as already described in the sections above. This development leads to more simplification in the process of buying Home & Living products, which in turn increases the customer's likeliness of buying something in the first place.

- Improved logistics and payment processes: The improved product range is only one advantage of online shopping for customers. Another is that they have more choice when it comes to delivery and payment options. Having more options and choice in terms of when products are delivered and how the customer pays for them, increases customer satisfaction and therefore increases chances of repeat business. While Westwing is already well positioned in terms of delivery and payment options, this is another area where opportunities exist.
- As mentioned above, more and more B2C transactions are happening online and consequently more and more customers are getting comfortable with and used to making purchases online. While this trend started with more obvious industries like books and fashion, it has also arrived in the furniture sector, which offers great opportunities for Westwing.
- Increasing number of customers: Online shopping first targeted the younger generations, which felt more comfortable with computers and the concept of placing orders online. However, this trend has been changing, and the age range of potential customers has been increasing steadily. These days, many of Westwing's customers are among the elder generation and management expects this trend to continue. The increased trust with online transactions will attract more and more people to eCommerce companies and will increase Westwing's potential customer base.

4.3.2. Strategic and operational opportunities (Strategische und operative Chancen)

WestwingNow Shop

The majority of the information provided in this management report focuses on Westwing's shopping club business, which has been Westwing's primary business. In February 2015, Westwing additionally launched the new online shop WestwingNow in Germany, offering a permanent assortment of home accessories and furnishings. No prior registration as a member is required to access the website. Management is convinced that this new business is complementary and thus a natural addition to the existing business model. This new business provides additional opportunities of growth and expansion.

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

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

- Customer sharing: Westwing can refer its existing, loyal members from the club to WestwingNow, thus increasing its share of the customer's wallet. This allows customers to benefit from the extended, permanent assortment and brings WestwingNow a significant share of its traffic at very low costs.
- Large supplier base: For the products offered on the WestwingNow website, the Company can refer back to its global supplier network. As sales volume is increased, suppliers will be keen to work with Westwing on this extended setup.
- Experience with technology, logistics and payment processes: While the products are offered permanently instead of temporarily, the processes in the back, such as updating the website, supply chain and payment processing are similar to the processes in place for the club and consequently limited work is required to organize these aspects for the shop.

- Employees: For over four years, Westwing has built a growing eCommerce business and has gathered valuable experience of what it takes to build a successful online retailer of Home & Living products. This experience and knowledge is available to the shop as employees can work on both models.

Private Label

Besides offering products from its large supplier base, Westwing also offers an increasing number of products under its own brand names. For example, products of the brands ‘Porte Main’ or ‘by46’ are proprietary Westwing products. Management believes that there is great potential in this area and is actively investing in this business to expand it further. Private Label is currently set up in a way to manage the entire purchasing process centrally and then sell the acquired products within the Company.

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

- First, it allows Westwing to influence its products and take part in designing the merchandise it offers. For all of its Private Label products and brands, Westwing is in direct contact with the manufacturers of the products and closely aligns product designs and materials used. This opportunity to directly influence the quality and attributes of products sold, gives Westwing a better chance to present a curated and well-rounded assortment on its website.
- Furthermore, because the intermediary is kept out of the deal, the margins Westwing can achieve on the sale of Private Label products are higher than for products from its other suppliers.

Westwing has built a dedicated team that is driving the Private Label business forward from Westwing’s headquarters in Munich.

Brand

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

Mobile eCommerce

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

Westwing is well equipped for this trend, as it has developed smartphone-optimized and tablet-optimized sites as well as dedicated apps for iPhone, iPad and Android devices. These devices have been so well-received by its customers that by December 2015, approximately 50% of Westwing’s sales transactions are now concluded on mobile devices.

Margin improvement

Another important opportunity for Westwing is the improvement of its margins. Given the fact that Westwing is still a young company and still improving its processes and infrastructure, management believes that it can optimize its processes and reduce complexity in the future, and consequently improve its margins. Among other factors, areas for improvement are identified by internal best practices within the entities, by referring to market practice and learning from peers.

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

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

5. Outlook (Prognosebericht)

Management considers the development of the financial and economic position of Westwing and the market environment in 2015 as positive. The Company is well financed and has built solid structures and processes, which will support further growth and the path towards profitability.

Westwing management expects the positive development of the online Home & Living market observed in the last years to continue in 2016 in all of its 14 geographic markets. In particular, management believes that the rapid shift to mobile eCommerce will strongly influence customer behavior over the next years. Westwing is well positioned in all of its markets to further advance its business.

Westwing has a unique competitive position in all of its markets and a strong position in the important mobile channel. Management expects that this will translate into continued growth.

In 2016, Westwing aims to continue its path towards sustainable profitability while growing revenues. In order to achieve this, management sees the following areas as key priorities for 2016:

- Focus on the core of Westwing’s business: Westwing will continue to provide inspiring and exciting offering with attractive brands and products at best prices. Furthermore, it will ensure a beautiful presentation of all products and interesting editorial content.
- Ensure ongoing customer inspiration, operational excellence and, consequently customer satisfaction across all countries served: Westwing believes that loyal customers are the foundation for its

success; therefore, management will continue to focus heavily on maintaining and improving all aspects influencing product offering and customer experience.

- Continue to focus on the strong Westwing brand: Westwing believes that its brand is a key driver of its success. Activities such as PR and social media will remain among the focus areas to further strengthen the brand.
- Continue to grow sustainably in existing markets: Westwing believes that it has a strong market position in its existing markets that offer opportunities for further expansion. Specifically, management believes that its unique, inspiration-based positioning and well-recognized and trusted brand will ensure loyalty from existing customers while at the same time, additional customers can be acquired through organic channels and marketing investments. In particular, WestwingNow will provide growth opportunities in Germany. Investments will be balanced with the goal to move towards profitability.
- Invest into technology and infrastructure: management believes that these areas are a critical foundation for long-term success of the business and as a key competitive advantage. Westwing aims to continue to use and develop state of the art software like its warehouse management system and Partner Portal. In addition, management believes that further improvement in infrastructure (like in its global supply chain and logistics network) will be a competitive advantage and key value proposition towards suppliers.
- Ensure availability of sufficient cash reserves to reach break-even at own discretion: management carefully weighs all initiatives and ensures that sufficient funds are available to cover investments and to have sufficient reserves to bring the Company to break-even.
- Make Westwing an employer of choice for top talents and ensure attractive development opportunities for its employees. Management believes that people are Westwing's key asset. In order to fulfil its strategy, management will continue to invest into retaining its employees and attracting talent for key roles.

For 2016, management expects double-digit growth in revenue – given the focus on profitability – slightly below the growth rate achieved in 2015. Preliminary results for Q1/2016 compared to Q1/2015 are in line with this expectation.

Gross merchandize volume and Total Orders are expected to grow in line with revenue, whereas the Average Order Value is expected to remain similar to 2015.

Management expects Adjusted EBITDA in EUR in 2016 to be negative, though significantly better than in 2015. The negative EBITDA is expected to be only half of what was shown for 2015. Improvements across all areas of the income statement and scaling of WestwingNow are the drivers for better Adjusted EBITDA in absolute terms. While focus on profitability is an important factor, management will continue to invest into strategic priorities such as technology. On Adjusted EBITDA margin, management expects to reach a single-digit loss in percentage of revenue.

As projected in the prior year, Westwing continued its growth path in 2015. On profitability, reflected by Adjusted EBITDA Margin, Westwing improved despite investments such as ramping up WestwingNow. Eventually Adjusted EBITDA Margin for 2015 turned out to be slightly better than indicated in prior year's forecast. In particular, in the seasonally strong Q4/2015, Westwing made significant progress towards profitability, having only a single-digit loss in EBITDA Margin and a positive free cash flow for this quarter and each single month of it. In December 2015, Adjusted EBITDA was positive for the first time. Given this encouraging progress towards achieving profitability, management is confident that the Company is in a

strong position for the years ahead. Management believes that Westwing has the necessary operational and financial resources to realize the planned development for 2016.

Investors continue to express their trust and support for Westwing. This was also reflected by the extension of the draw-down period for the bridge loan, which took place in March 2016, but which was not drawn down so far. Moreover, Westwing is currently in discussions with investors on a new financing round.

Munich, 31 March 2016

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