WESTWING

ANNUAL REPORT

2018

WESTWING AT A GLANCE

EUR
254 m
of revenue in 2018

+1.2 %
Adjusted EBITDA margin in 2018

85 %
of our revenue comes from customers who visit us on average 100 times per year

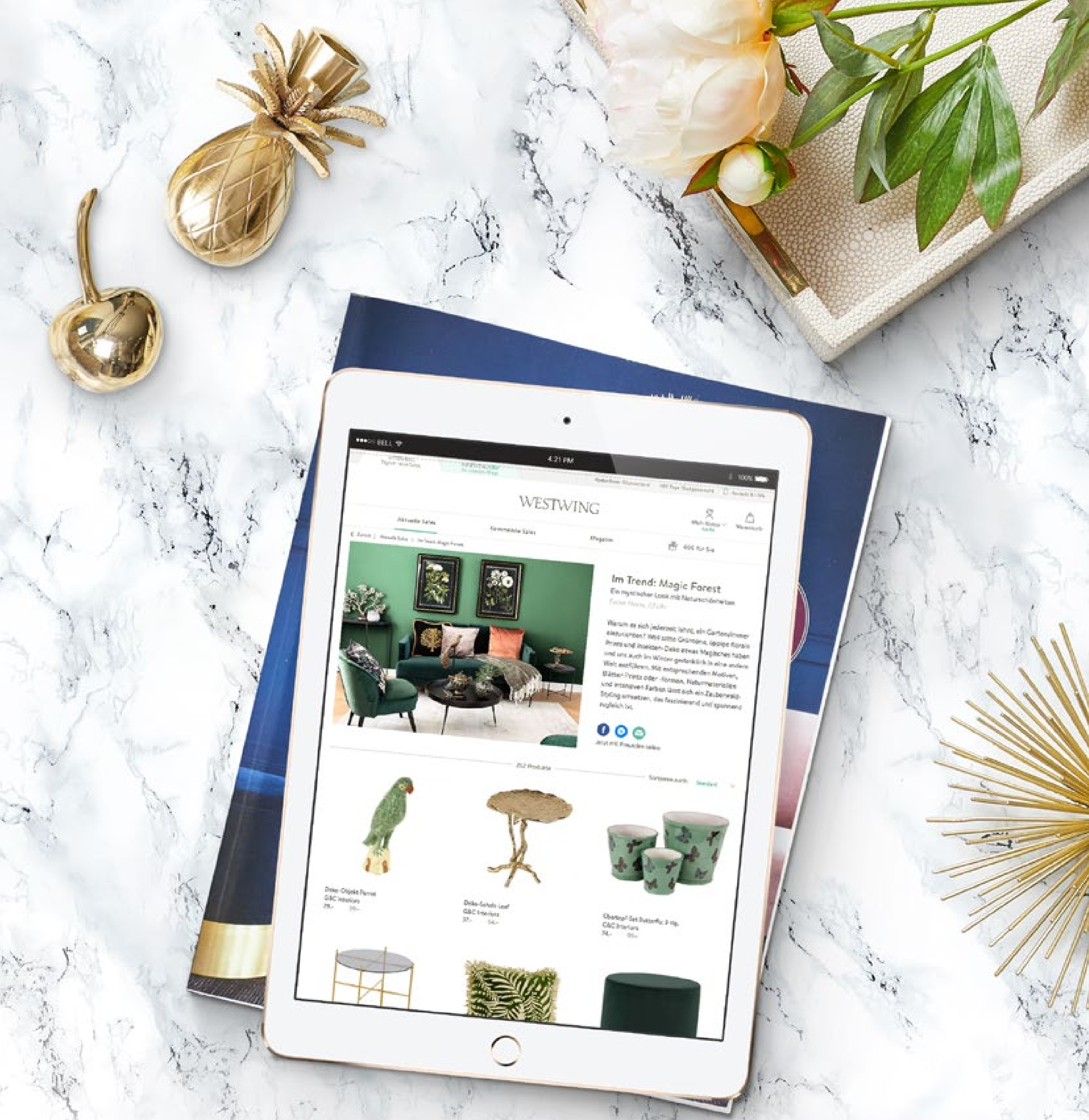
Operate in a EUR
117bn
market in our geographies

Founded in
2011

Present in
11
countries across Europe

OUR MISSION

TO INSPIRE AND
MAKE EVERY HOME A
BEAUTIFUL HOME



OUR IDEA

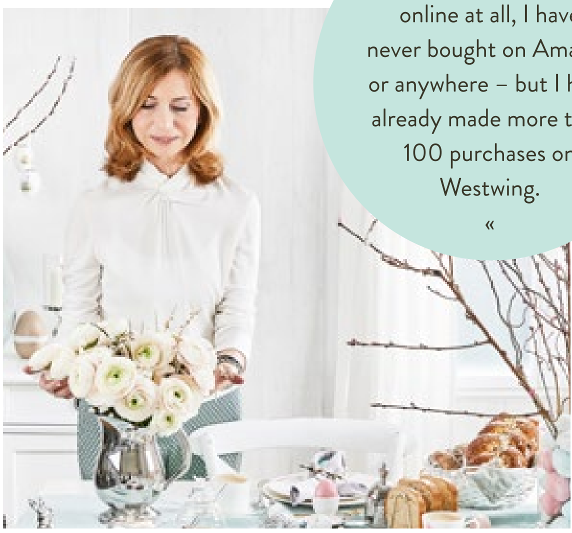
Westwing is a **"curated shoppable magazine":** We offer our customers a **careful selection of Home and Living products** that are presented in an **inspirational environment** filled with décor tips, home stories and relevant visual content.

OUR PRODUCTS

We offer the full range of **Home and Living categories** like textiles, rugs, furniture, decoration items, lighting, kitchen and dining products.

OUR CUSTOMERS

Westwing is a love brand. Our customers love our brand so much that they keep coming back to us: **85 %** of our revenues come from customers who visit us on average **100 times per year**. We focus on women as they make the majority of Home and Living decisions in a household – which is why **90 %** of our customers are women.



» I don't shop online at all, I have never bought on Amazon or anywhere – but I have already made more than 100 purchases on Westwing. «

» My daily morning routine is a nice cup of coffee and the fresh Westwing offering. «

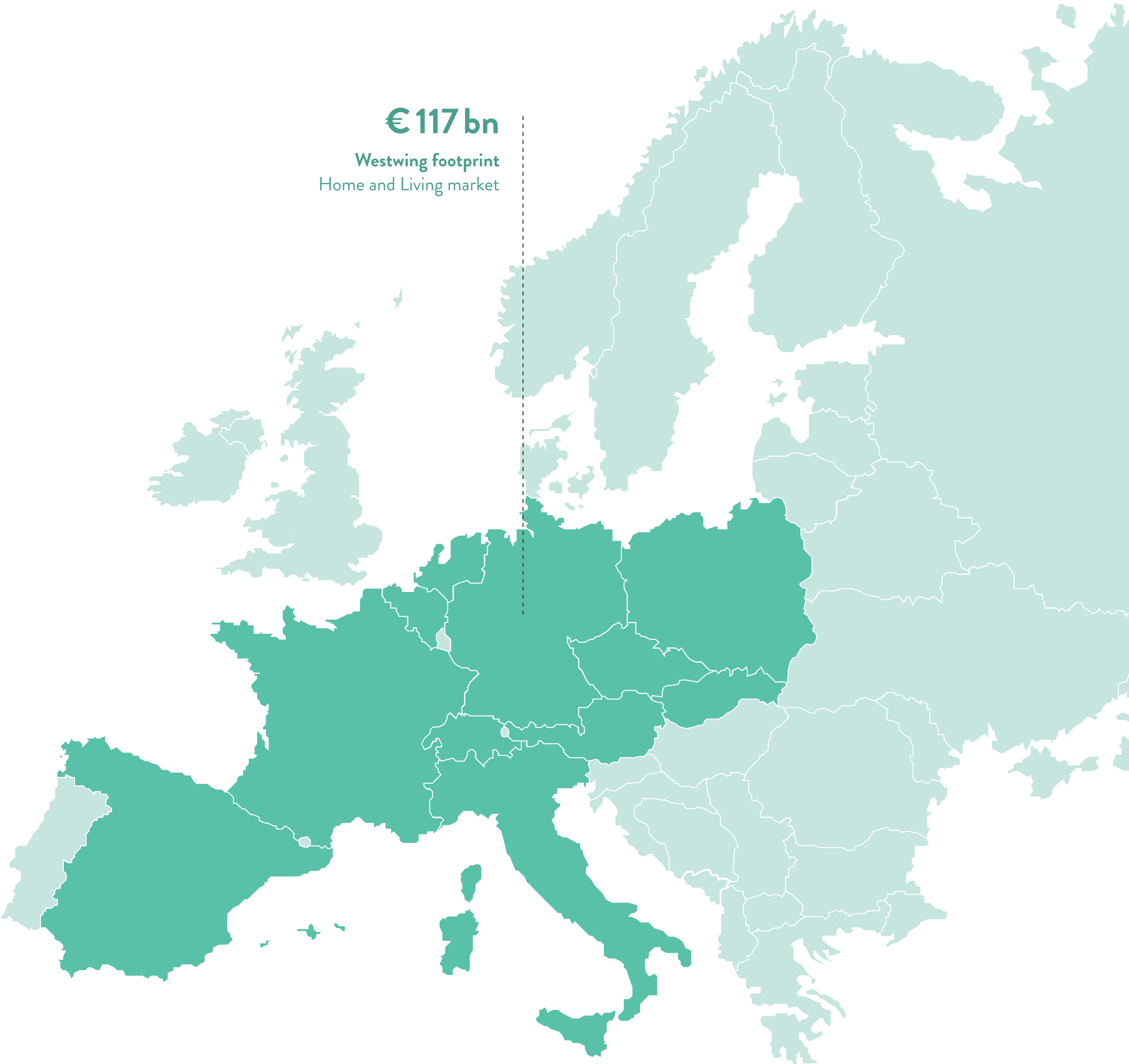
» On Westwing, I keep finding things that inspire me to redecorate my home; it feels like an addiction not to miss the next great idea. «

OUR DIFFERENTIATOR

We are the **leader in inspiration-based eCommerce**. Unlike the typical eCommerce website, which is mostly search based and doesn't work so well for Home and Living, our site is **beautiful and filled with tons of fresh daily inspiration**, giving our customers a reason come back to us every day.

OUR CREATIVE TEAM

Our Creative Team is powering our inspirational brand and business model with **over 100 world-class Creatives** such as Editors, Creative Merchandisers, Stylists, Art Directors, Interior Designers, Photographers, Cinematographers.



OUR MARKET

The opportunity is massive as we are operating in a **>EUR 117bn Home and Living market** in our geographies that is very early in eCommerce, with only 5 % of sales made online.

WESTWING AT A GLANCE

Key figures	FY 2018	FY 2017	Change
Key performance indicators			
Private Label share in Q4 (in %)	18 %	12 %	+ 6 pp
GMV (in EUR m)	291	252	+ 15.2 %
Number of orders (in k)	2,399	2,220	+ 8.0 %
Average basket size (in EUR)	121	114	+ 6.6 %
Active customers (in k)	934	838	+ 11.4 %
Average orders per active customer in the preceding 12 months	2.6	2.7	– 3.0 %
Average GMV per active customer in the preceding 12 months (in EUR)	312	301	+ 3.4 %
Mobile visit share (in %)	73 %	70 %	+ 3 pp
Results of operations			
Revenue (in EUR m)	253.9	219.6	+ 15.6 %
Adjusted EBITDA (in EUR m)	3.1	– 4.0	+ 7.1
Adjusted EBITDA margin (in % of revenue)	1.2 %	– 1.8 %	+ 3.1pp
Financial position			
Free cash flow (in EUR m)	– 5.5	– 13.6	+ 8.1
Cash and cash equivalents (in EUR m)	123.0	13.8	+ 109.2
Other			
Full-time equivalent employees (as of reporting date)	1,143	959	+ 19.2 %

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MANAGEMENT BOARD

DELIA FISCHER
FOUNDER AND
CHIEF CREATIVE OFFICER

STEFAN SMALLA
FOUNDER AND
CHIEF EXECUTIVE OFFICER

DR. DR. FLORIAN DRABECK
CHIEF FINANCIAL
OFFICER

LETTER TO SHAREHOLDERS

Dear Shareholders,

We founded Westwing eight years ago with the vision to inspire our customers to create a truly beautiful home for themselves. A place that they fall in love with – over and over again. In our homes, memories are made, and the future begins, life and love happen; it is where you feel at ease and where your kids take their first steps. A place that is constantly evolving and has its own soul. We offer something to our customers that is very much a highly emotional and ever-present part of their lives. That is why Westwing, first and foremost is a brand.

The Westwing brand and the loyalty of our customers to this brand are of utmost importance to us. From first apartments, to family homes, to havens for retirements, we can accompany our customers and be a part of their lives for decades. Our average customer is 43 years old, and 90 % of our customers are women. Already today, we generate 85 % of our sales with customers who visit our sites and apps on average 100 times per year. We do this with a unique business model which combines creativity, content and eCommerce in a seamless 'shoppable magazine' to fulfil our mission: To inspire and make every home a beautiful home.

2018 has been a very exciting year for us. We served 933,694 customers who placed 2,399,122 orders. Every 5 seconds we sold a product, 24/7. We have grown revenues by 16 % to EUR 254m, and we did so profitably on an Adjusted EBITDA level for the first time. We have coupled this profitable growth with best-in-class cash efficiency, clearly establishing the path that we believe will create a sustainable, market-leading company and long-term value for our shareholders.

Let us lay out the key principles by which we will continue to run Westwing:

- Loyalty: Customer loyalty is the foundational element of all long-standing successful consumer businesses, and we believe that a business primarily driven by customer loyalty is the only one worth building. That is why from our founding on we have focused on customer loyalty in every part of our business model. We take trade-offs in the direction of loyalty even at the expense of opportunistic sales. We aim to make our customers fall in love with our brand. In our market, this is rare. The Home and Living market is fragmented with very few well-known brands. Westwing is a brand that customers want in their homes. Once you have a brand like this, there is an amazing chance to sell our own label and private label products and increase customer experience as well as margins on the way. Loyalty is both the driver and the goal of our business strategy.

- Unique business model: The Westwing business model is truly unique, driving long-term value in a world where customers are looking for a shopping experience, in addition to pure search-based demand fulfilment. We have a powerful brand with a combination of content and eCommerce for a 'shoppable magazine' that inspires our customers every single day. Around our daily themes we have built a permanent assortment of bestsellers and our own and private label products. Our social media-focused organic marketing acquires new customers at high efficiency. The Westwing business model provides a deep moat and thus the ability to innovate long-term at profitable growth amid a dynamic and competitive market.

- Creativity first: The secret sauce of Westwing is our creative team and our approach to building our company around them. Our world-class creatives – like those at fashion or entertainment houses – drive their vision and ideas forward while the business/technology/operations part of the company makes them reality. Our creatives have wide-ranging decision-making power on all customer-facing aspects of Westwing, and with that we ensure customer excitement and differentiation. One of our angel investors (Christoph Janz from Point Nine Capital) has put it into words better than we could: "Westwing is probably the most as well as the least data-driven company that I know. When it comes to logistics, allocation of resources and overall business performance, the company is extremely numbers-driven. But as soon as you enter product selection, design, and customer experience, the opinions of the creative people in the company are sacrosanct."

- Technology-driven: The internet and mobile phones are generational innovations that eCommerce is built on. We operate at the forefront of this wave by making these technologies accessible to our customers and thus making their homes more beautiful. Augmented Reality (AR) is the next generationally important technology in our view, and we aim to be also at the forefront of this wave. AR allows customers to visualize how their newly furnished homes will actually look like from the comfort of their sofa, another eCommerce advantage that store-based retail cannot offer. We develop and run our technology in-house with an experienced team of experts, heavily investing around three core areas: Consumer technology (esp. on mobile devices; already 74 % of our traffic is mobile), operations technology (esp. how we deliver our products and run our business), and new technologies (esp. AR and data-driven personalization).

- Profitable growth: We have created Westwing so that our differentiation will enable us to couple long-term growth with strong profitability. We are running our business model based on customer loyalty, creativity, and a strong brand for long-term 10+% Adjusted EBITDA target margin levels. We are working hard to improve upon the already achieved profitability. By running our company profitably, we will continue to build the right 'muscles' to realize our long-term target margins step-by-step, a process already well under way in our DACH segment.

- Cash efficiency: As founders who aim to run Westwing for the long term, we are not only focused on accounting metrics such as Adjusted EBITDA but on cash returns as the ultimate creator of long-term shareholder value. Our business model thus is one where cash efficiency is front and center. We limit Capex whenever we can. For instance, we currently rent our warehouses, as owning them is too expensive when considering our true cost of capital. We also run at roughly neutral net working capital, working with limited inventories and working with suppliers on attractive payment terms. The difference between Adjusted EBITDA and cash flow is comparatively small at Westwing, and we aim to keep it that way.

- Long-term focus: The European market for Home and Living eCommerce is very early with only 5 % of eCommerce penetration. Only recently have customers started to become comfortable with making their Home and Living purchases online. Trust in their favorite eCommerce brand thus is key and a main focus for us at Westwing. For instance, we invested very early into proprietary warehouse management software and processes that allow us to pack and ship efficiently a product range that comprises fragile wine glasses, complex table lamps, and large sofas. We will create many of the basics of the market ourselves, from operations infrastructure and educating our fragmented supplier base how to succeed online, to building the underlying technologies. We are committed to building a company that will stand the test of time.

- Transparency: Part of our internal values is to communicate openly, honestly, directly. This is also how we will continue to communicate with our shareholders. We will share the evolution of our path, the good and the bad, with openness in a timely and measured fashion. While we do not plan to give quarterly guidance, as this is not appropriate in a market as seasonal and weather-related as ours, we will fully explain any developments once we report them and how they affect our results with regards to full-year guidance. We will not hesitate to describe developments at Westwing and in our market as we see them.

The year 2018 marked our transition from proving our business model over the first seven years of our existence into running Westwing profitably growing. We as founders and leaders of Westwing are proud of this achievement, yet we fundamentally believe it is still only the beginning of what we will achieve with our and your company. With over EUR 100 million in the bank, we are now working our way into a future where our customers, team members, partners, and shareholders can rely on us for decades to come.

We want to thank you, our shareholders, as well as our business partners, our team members, and our customers, for the trust that you have put in us, our team and our company. We will work tirelessly to justify your trust and are looking forward to this exciting journey together with you.

The Westwing Founders & Management Board

Munich, March 27, 2019

Stefan Smalla
Chief Executive Officer
Westwing Group AG

Delia Fischer
Chief Creative Officer
Westwing Group AG

Dr. Dr. Florian Drabeck
Chief Financial Officer
Westwing Group AG

THE SUPERVISORY BOARD

CHRISTOPH BARCHEWITZ
CHAIRMAN SUPERVISORY BOARD

DR. ANTONELLA MEI-POCHTLER
DEPUTY CHAIRMAN

THOMAS HARDING

CHRISTIAN STRAIN

OLIVER SAMWER

MICHAEL HOFFMANN
CHAIRMAN AUDIT COMMITTEE

SUPERVISORY BOARD REPORT

Dear Shareholders,

The fiscal year 2018 was a very successful year for Westwing Group AG ("**Westwing**" or the "**Company**") with a loyal and growing customer base enabling solid growth and full-year Adjusted EBITDA profitability. Highlights of the year were the outstanding performance of the business in the DACH region, which proves the success of Westwing's business model, and the continued loyalty of Westwing's customer base with the Company making 85 % of revenue with customers who visit its sites and apps on average 100 times per year. Furthermore, Westwing's IPO with our shares being admitted to trading on the regulated market of the Frankfurt Stock Exchange constitutes a major milestone in the 8-year history of the company.

Trading of Westwing shares commenced on October 9, 2018, with a final issue price of EUR 26 per share. This translated into a market capitalization of EUR 539m. The IPO generated proceeds of EUR 122m enabling investments in the technology platform and customer experience, enhancement of the product offering, investments into Own Label and Private Label, investments in strategic flexibility to drive current international market growth and repayment of debt.

Below, I would like to inform you about the work of the Supervisory Board and its committee during the fiscal year 2018.

Management Oversight and Other Key Supervisory Board Activities

The Supervisory Board duly performed its duties in accordance with the statutory requirements, the Articles of Association of Westwing Group AG, the Rules of Procedure of the Supervisory Board dated August 7, 2018 (the "**Supervisory Board Rules of Procedure**"), and the German Corporate Governance Code. The Supervisory Board obtained regular and detailed information, written and verbal, about business policy, significant financial, investment and personnel planning matters and the course of business. In particular, the Management Board discussed and agreed on the Company's strategy with the Supervisory Board. Furthermore, the Supervisory Board was directly involved in all fundamental decisions.

Before adopting a resolution, any transactions that require Supervisory Board approval according to the Articles of Association and/or the Management Board Rules of Procedure were explained by the Management Board and discussed by the Supervisory Board and the Management Board. Discussions took place in meetings of the Supervisory Board or its committee or in informal communications with the Management Board outside the Supervisory Board meetings. The Chairman of the Audit Committee discussed audit-related topics with the auditor outside the meetings and without the involvement of the Management Board.

The Chairman of the Supervisory Board as well as other members of the Supervisory Board were also in regular contact with the Management Board outside the Supervisory Board meetings. The Supervisory Board also took some decisions via email.

The Supervisory Board discussed and reviewed the following topics in fiscal year 2018:

- The results for the first half year and the third quarter of 2018
- The development of business during the year
- The revenue and earnings planning of Westwing for 2019
- The strategic positioning and structure of the Group and the corporate organization
- The audit planning and quarterly reports
- The exchange of shareholding and option entitlements of local management and other supporters in respect of local subsidiaries of Westwing for shareholdings or option entitlements in Westwing in preparation of the IPO
- Divestment of the Company's local subsidiaries in Brazil and Russia
- Entering into loans as part of the financing strategy prior to the IPO
- The entering into lease agreements for additional office space
- The utilization of the Greenshoe option
- Declaration of compliance with the German Corporate Governance Code

Cooperation Between Supervisory Board and Management Board

The Management Board and Supervisory Board cooperated closely for the benefit of Westwing in fiscal year 2018. In an ongoing dialogue between the boards, the Supervisory Board discussed strategy, planning, business development and risk management issues with the Management Board.

Cooperation between the Supervisory Board and Management Board involves the immediate notification of the Chairman of the Supervisory Board of important events and the requirement for the Supervisory Board to approve transactions of fundamental importance, transactions by members of the Management Board and related persons with Westwing and the acceptance of sideline work outside the entity.

Composition of the Supervisory Board and Committees

According to the Articles of Association of Westwing, the Supervisory Board has six (6) members. All members of the Supervisory Board are elected by the Annual General Meeting as shareholder representatives. The Supervisory Board is not subject to employee codetermination.

In fiscal year 2018, the Supervisory Board had one committee, the Audit Committee.

Meetings of the Supervisory Board and its Committees

The Supervisory Board met 14 times in fiscal year 2018 as well as until the date of approval of the financial statements in fiscal year 2019 in presence or by telephone/video conference and passed resolutions four (4) times by circulation.

The Audit Committee held a total of four (4) meetings. The outcome of the committee meetings was reported in the next plenary meeting.

Each Supervisory Board Meeting had a quorum.

All members of the Audit Committee attended the Supervisory Board committee meetings.

Members of the Management Board attended all Supervisory Board meetings, reporting to the Supervisory Board in detail on the course of the Company's and the Group's business, including on the development of the Company's revenue and profitability, position and business policy. The reports by the Management Board were also made available to the respectively absent members. The content of the reports by the Management Board were discussed in depth with the Supervisory Board. The topics addressed, and the scope of the reports met the legal requirements, the principles of good corporate governance and the requirements of the Supervisory Board.

The plenary meetings in fiscal year 2018 had a focus on business performance, profitable growth strategy and the preparations for the IPO. In this context, the Management Board gave regular updates about the IPO preparations and advised the Supervisory Board about the next steps. The Supervisory Board approved the capital increase required for the IPO. In preparing the IPO, the Supervisory Board also dealt with the shareholdings and option entitlements of local management and other supporters in respective local subsidiaries of Westwing that were exchanged for shareholdings or option entitlements in Westwing.

The Audit Committee discussed the quarterly and first-half-year results for fiscal year 2018, discussed and agreed on the general audit process and addressed the Company's obligations after the IPO.

In addition to holding meetings, the Supervisory Board and its committees discussed specific topics in conference calls. Furthermore, the Supervisory Board adopted several resolutions by circulation.

No conflicts of interest arose in respect of any member of the Supervisory Board in dealing with topics in the Supervisory Board.

Corporate Governance

Both the Management Board and Supervisory Board are committed to upholding the principles of good corporate governance in accordance with the recommendations of the Federal German Government Commission on the German Corporate Governance Code. In September 2018, the Supervisory Board and Management Board issued a declaration of compliance for Westwing in accordance with Sec. 161 AktG ("Aktiengesetz": German Stock Corporation Act) for the first time as part of its reporting on fiscal year 2018. This is published in the Investor Relations section on Westwing's website, www.westwing.com. The few exceptions from the German Corporate Governance Code are described in the declaration.

The corporate governance report contains additional information on the Company's corporate governance.

Audit of the Separate and Consolidated Financial Statements

Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Munich office, was elected as auditor for fiscal year 2018 by the Annual General Meeting and engaged by the Supervisory Board. The Supervisory Board issued the engagement of Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft. The following areas of audit focus were agreed upon:

- Audit of the books and records
- Audit of the separate financial statements, including the review and analysis of the early warning system for the detection of risks
- Audit of the consolidated financial statements in accordance with International Financial Reporting Standards ("IFRSs")
- Audit of the combined management report of Westwing Group AG and the Group for fiscal year 2018

The auditor issued an unqualified auditor's report in each case.

The Supervisory Board satisfied itself of the auditor's independence and obtained a written declaration in this respect. The financial statements and the auditor's long-form reports were sent to the members of the Supervisory Board. The Supervisory Board reviewed the separate and consolidated financial statements and the combined management report of Westwing. The results of the review by the Audit Committee and the results of its own review are fully consistent with the results of the auditor's audit. Having completed its review, the Supervisory Board has no reason to raise any objections to the audit of the financial statements. The Supervisory Board has therefore approved the separate and consolidated financial statements of Westwing Group AG for fiscal year 2018. The financial statements of Westwing Group AG for 2018 are thus ratified.

The Supervisory Board would like to thank the Management Board and all employees of Westwing for the business success achieved, their hard work and their high level of commitment in fiscal year 2018.

Munich, March 27, 2019

On behalf of the Supervisory Board

Christoph Barchewitz

CORPORATE GOVERNANCE REPORT

In this statement Westwing Group AG (the "**Company**") reports in accordance with Sec. 289 f HGB ("Handelsgesetzbuch": German Commercial Code) on the principles of corporate governance and in accordance with Sec. 161 AktG ("Aktiengesetz": German Stock Corporation Act) and Sec. 3.10 of the German Corporate Governance Code on the Company's corporate governance. In addition to the declaration of conformity with the German Corporate Governance Code, this statement contains information on corporate governance and the composition and working practices of the Management Board, the Supervisory Board and the Supervisory Board's committees. The statement on corporate governance in accordance with Sec. 289 f HGB is also part of the management report.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Corporate governance means the responsible leadership and management of entities with a view to long-term value creation. The corporate governance and culture of Westwing Group AG conform to the legal requirements and – with a few exceptions – the additional recommendations of the German Corporate Governance Code. The Management Board and Supervisory Board are committed to good corporate governance and all business units follow this guiding principle. Competence, transparency and sustainability are core values for the Company.

In preparation for and after the IPO, the Management Board and the Supervisory Board, again, diligently addressed compliance with the guidance of the German Corporate Governance Code in fiscal year 2018. They thereby applied the Code as amended on February 7, 2017, and, in December 2018 in accordance with Sec. 161 AktG, issued their declaration of conformity with the recommendations of the Code for fiscal year 2018 and commented on the limited number of exceptions. The declaration is published on the Company's website **(http://ir.westwing.com)**.

DECLARATION OF CONFORMITY

The Management Board and Supervisory Board of the Company issued the following joint declaration of conformity in accordance with Sec. 161 AktG in December 2018:

Declaration of Compliance 2018 ("Entsprechenserklärung")

Declaration by the Management Board and the Supervisory Board of Westwing Group AG Regarding the Recommendations of the "Government Commission German Corporate Governance Code" Pursuant to Section 161 AktG

"The Management Board and Supervisory Board of Westwing Group AG declare that Westwing Group AG (the 'Company') has complied since October 9, 2018, the day of the initial admission of the Company's shares to trading on a regulated market, and intends to comply in future with the recommendations of the German Corporate Governance Code, as amended on February 7, 2017 (published on April 24, 2017, and in the corrected version published on May 19, 2017) (the 'Code 2017'), except for the following:

- **Sec. 3.8 sentences 4 and 5 of the Code:** The Code provides that, if a company takes out a D&O insurance for the Management Board, a deductible of at least 10 % of the loss up to at least the amount of one and a half times the fixed annual remuneration of the Management Board member must be agreed. A similar deductible shall be agreed in any D&O insurance policy for the Supervisory Board. The Company's current D&O insurance policy does not include a deductible for the members of the Supervisory Board. The Company is of the opinion that a deductible for the members of the Supervisory Board does not have any influence on the awareness of responsibility and loyalty of the members of the Supervisory Board with regard to their tasks and functions. Moreover, it would reduce the Company's possibilities to compete for competent and qualified members of the Supervisory Board.

- **Sec. 4.2.3 sentence 4 of the Code:** The Code provides that variable remuneration components generally have a multiple year assessment basis that shall have essentially forward-looking characteristics. The members of the Management Board are entitled to variable remuneration in cash based on the achievement of certain performance targets for the relevant fiscal year. The Company deemed an annual assessment basis to be reasonable, since the Company is still a young company whose business performance is therefore difficult to predict, and in any case the vast majority of management compensation is stock-based, with variable remuneration being a small part of total compensation.

- **Sec. 4.2.3 sentence 7 of the Code:** The Code provides that the amount of remuneration of the members of the Management Board shall be capped with maximum levels, both as regards variable components and in the aggregate. The members of the Management Board have in the past been granted and may from time to time in the future be granted call options for the acquisition of shares in the Company in addition to their remuneration under their relevant service agreement. Such call options are not granted under a standardized call option program and are not capped with maximum level.

- **Sec. 4.2.5 sentences 5 and 6 of the Code:** The Code provides that the remuneration report, which is part of the management report and describes the principal features of the Management Board remuneration system, shall include information on the nature of fringe benefits provided by the Company. The total compensation of every member of the Management Board shall be disclosed on an individual basis, divided into fixed and variable compensation granted and received. The model tables provided by the Code shall be used to disclose such information. On September 21, 2018, the Company's shareholders' meeting resolved that the compensation of the members of the Management Board will not be disclosed individually in the Company's individual or consolidated financial statements to be prepared for all fiscal years until 2022 (inclusive) in accordance with Sections 286 Para. (5) sentence 1, 285 No. 9, 315e Paras. (1) and (2) and 314 Para. (3) sentence 1 HGB. Therefore, at least with respect to all fiscal years until 2022 (inclusive), the Company will abstain from an individual disclosure of the aggregate compensation for each member of the Management Board and, to the extent legally permissible, from a disclosure of their individual compensation. The Company believes that the information it will provide in accordance with mandatory laws is sufficient for current and future shareholders and the public. With respect to the model tables, the Company will refrain from using these tables in its compensation report as it believes that it can display the relevant information in another suitable form in the notes or the management report.

- **Sec. 5.3.3 of the Code:** The Code provides that the Supervisory Board shall form a Nomination Committee, composed exclusively of shareholder representatives, which proposes suitable candidates to the Supervisory Board for its recommendations to the shareholders' meeting. The Supervisory Board has not formed a Nomination Committee, since the Supervisory Board is of the opinion that a Nomination Committee is not required with respect to the shareholder structure of the Company.

- **Sec. 7.1.2 sentence 3 of the Code:** The Code provides that the consolidated financial statements and the group management report shall be made publicly accessible within 90 days from the end of the financial year, while mandatory interim financial information shall be made publicly accessible within 45 days from the end of the reporting period. In order to ensure a high quality of the financial reporting, compliance with the recommended publication periods may not be possible in all cases. As a consequence, the Company hereby declares, by way of precaution, a deviation from the respective recommendation. However, the Company is constantly seeking to improve its reporting system and intends to comply with this recommendation of the Code in the near future.

Munich, November 2018"

INFORMATION ON CORPORATE GOVERNANCE PURSUANT TO SEC. 289 F HGB

The corporate governance of Westwing Group AG is primarily determined by the legal requirements – with a limited number of exceptions – and by the recommendations of the German Corporate Governance Code and the Company's internal policies.

Lawful and responsible conduct by all employees and executives, and mutual respect and trust form the basis of our corporate success. All of Westwing Group AG's employees are bound by the Code of Conduct to act in a risk-aware and responsible manner. The Code of Conduct encompasses significant guidance and principles and also contains ethical and legal standards to be upheld by all employees.

In order to strengthen its corporate governance, Westwing Group AG has a range of institutions in place, including but not limited to various compliance officers, a risk monitoring system as part of a comprehensive risk and opportunities management system and an accounting-related internal control system. The corporate governance of Westwing Group AG is as follows:

Working Practices of the Management Board and Supervisory Board

A stock company under the German Stock Corporation Act, having its registered seat in Berlin, Westwing Group AG has a two-tier management system, comprising the Management Board and Supervisory Board. The two boards cooperate closely for the benefit of the Company. The Management Board manages the entity, the Supervisory Board advises and oversees the Management Board. The shareholders of Westwing Group AG exercise their rights in the Annual General Meeting.

Working Practices of the Management Board

The Management Board manages the Company on its own responsibility in accordance with the legal provisions, the Articles of Association of Westwing Group AG (the "**Articles of Association**") and the rules of procedure for the Management Board dated August 7, 2018 ("**Management Board Rules of Procedure**"). It is obligated to protect the Company's interest, in particular to increase its long-term business value. The Management Board develops the Company's strategy, discusses and agrees on it with the Supervisory Board and ensures that it is implemented. It is also responsible for appropriate risk management and control as well as regular, timely and comprehensive reporting to the Supervisory Board.

The Management Board performs its management function as a collective body. Notwithstanding their overall responsibility for management, the individual members of the Management Board manage the areas assigned to them on their own responsibility within the framework of the Management Board's resolutions. The allocation of responsibilities among the members of the Management Board is defined in the Management Board Rules of Procedure, according to which the members of the Company's Management Board are responsible for the following areas:

CEO: Stefan Smalla
- Strategy (development and implementation)
- Organization
- Operations
- Marketing
- Technology & Product Management
- Product Development

CCO: Delia Fischer
- Creative
- Offering
- Public Relations

CFO: Dr. Dr. Florian Drabeck
- Finance
  - Accounting, Tax, Treasury
  - Controlling
  - Financial Reporting to Stock Market
- Investor Relations
- Holding Functions: HR, Legal, Risk & Compliance

The Management Board's work is precisely stated in the Management Board Rules of Procedure. Article 4 stipulates that the Management Board as a whole must decide on the Company's strategic alignment and the strategic planning of the use of funds. In addition, measures and transactions of strategic and/or extraordinary importance for the Company and/or group companies or associated with an extraordinary economic risk require the prior approval of the entire Management Board. Furthermore, the Management Board Rules of Procedure and the Articles of Association stipulate that certain transactions of fundamental importance require the prior approval of the Supervisory Board or one of its committees.

The Management Board principally meets once a month and, in addition, if required (see Art. 5 (1) of the Management Board Rules of Procedure).

The Management Board informs the Supervisory Board pursuant to Art. 6 of the Management Board Rules of Procedure regularly, timely and comprehensively on all relevant issues relating to strategy, planning, business development and risk management relevant for the entity.

Supervisory Board

The Supervisory Board advises and oversees the Management Board. It works closely with the Management Board for the benefit of the Company and is involved in all decisions of fundamental importance (see also above).

The rights and duties of the Supervisory Board are governed by the legal requirements, the Articles of Association, the rules of procedure for the Supervisory Board dated August 7, 2018 (the "Supervisory Board Rules of Procedure") and the Management Board Rules of Procedure. It appoints and removes the members of the Management Board and, together with the Management Board, ensures long-term succession planning.

The work of the Supervisory Board takes place in plenary meetings and in an Audit Committee (see below). The work of the committee is aimed at improving the efficiency of the Supervisory Board's work. The chairpersons report regularly to the Supervisory Board on the work of the committee. According to its rules of procedure (Art. 6 (1) sentence 1), the Supervisory Board must meet at least once every calendar quarter. In addition, it convenes whenever it is in the Company's interest to do so.

The members of the Supervisory Board are selected according to their knowledge, capabilities, professional aptitude and competence. In its Rules of Procedure, the Supervisory Board has defined the target that at least one independent member of the Supervisory Board must have expert knowledge of financial reporting or auditing (Sec. 100 AktG).

Stipulations to Promote the Participation of Women in Leadership Roles

Westwing Group AG is committed to building a diverse employee structure and is aware of the particular importance of female participation at all management levels of Westwing Group AG. We are proud of the high proportion of female employees and leaders (e.g., 50 % of our leaders employed in the first and second management levels of Westwing Group AG are female, and 33 % of our Management Board is female).

According to Sec. 111 (5) AktG, the Supervisory Board is required to set targets for the percentage of women on the Supervisory Board and Management Board. Women now hold 1 of 6 seats of the Supervisory Board (1 of 4 active seats) and 1 of 3 seats of the Management Board. The long-term targets (including diversity concept) will be set during the fiscal year 2019.

According to Sec. 76 (4) AktG and no. 4.1.5 sentence 2 of the Code 2017, the Management Board is required to set targets for the percentage of women in the two management levels below Management Board. We are proud that currently 50 % of the leaders in the first and second management levels of Westwing Group AG are female[1], and we are committed to further support female leaders in the future. At its meeting on March 25, 2019, the Management Board defined a minimum target percentage of 40 % at the second management level of Westwing Group AG which shall in any reporting period be exceeded until March 25, 2023 and a minimum target percentage for women of zero at the first management level of Westwing Group AG (which according to the legal definition is only two employees, the CTO and CMO, who are employed at Westwing Group AG). Note that the regulation extends only to Westwing Group AG; yet, we would like expressly state that we feel committed to increasing female participation at all management levels also in our other operating entities and countries.

Composition of the Management Board and Supervisory Board

According to the Articles of Association (Art. 7 (1)), the Management Board comprises one or more persons. The number of members is determined by the Supervisory Board. In fiscal year 2018, the Management Board had three (3) members, each of whom is responsible for the areas assigned to them.

According to the Articles of Association (Art. 9 (1)), the Supervisory Board has six (6) members. It is not subject to employee codetermination. All members of the Supervisory Board are elected by the Annual General Meeting as shareholder representatives.

1 More than 50 % in the second management level are female; the two members of the first management level (CTO and CMO) are both male. Altogether, 50 % of first and second management level of Westwing Group AG are female.

Details on the members of the Management Board and the Supervisory Board are provided in the notes to the financial statements of Westwing Group AG in accordance with Sec. 285 No. 10 HGB.

Cooperation Between the Management Board and Supervisory Board

The Management Board and the Supervisory Board cooperate closely for the benefit of the Company. Ongoing and intensive dialog between the boards is the basis for efficient and effective corporate management. The Management Board develops Westwing Group AG's strategy, discusses and agrees on it with the Supervisory Board and ensures that it is implemented.

At regular intervals, the Management Board discusses the progress made in implementing the strategy with the Supervisory Board. The Chairman of the Supervisory Board has regular contact with the Management Board and advises it on strategy, planning, business development and risk management issues. The Management Board informs the Chairman of the Supervisory Board without delay about important events that are of significance for the assessment of the position and development as well as for the management of the Company and its group companies. The Chairman of the Supervisory Board subsequently informs the rest of the Supervisory Board and, if necessary, convenes an extraordinary Supervisory Board meeting.

The Articles of Association and the Management Board Rules of Procedure contain provisions stipulating that the Supervisory Board is required to give its approval for transactions of fundamental significance.

The members of the Management Board must disclose any conflicts of interest to the Supervisory Board and the other members of the Management Board without delay. Significant transactions by members of the Management Board and related parties with the Company require the approval of the Supervisory Board, as does the acceptance of sideline work outside the entity.

A D&O group policy was concluded for the members of the Management Board and the Supervisory Board.

Supervisory Board Committees

In fiscal year 2018, the Supervisory Board had one committee, the Audit Committee. Additional committees may be established as required.

Audit Committee

The Audit Committee deals in particular with the monitoring of the financial reporting process, the effectiveness of the internal control and internal audit systems, and the auditing of the independence of the auditor, additional services by the auditor, engaging the auditor, determining the areas of audit focus and fee arrangement, and compliance.

The Audit Committee prepares the Supervisory Board's negotiations and resolutions on the annual report and, if applicable, the consolidated financial statements, i.e., it bears responsibility for the preliminary audit of the documents relating to the annual and consolidated financial statements and for preparing the approval and ratification of these financial statements and of the Management Board's proposal for profit appropriation. Furthermore, the Audit Committee prepares the agreements with the auditor, in particular the engagement of the auditor, and the appointment of the auditor by the Annual General Meeting. This also includes evaluating the required independence; the Audit Committee takes suitable action to determine and monitor the auditor's independence. The Audit Committee rather than the Supervisory Board decides on whether or not to approve agreements with auditors on additional advisory services, if such agreements require approval. The Audit Committee discusses with the Management Board the principles for compliance, risk identification, risk management and the design and operating effectiveness of the internal control system. Two meetings of the Audit Committee are currently scheduled for 2019.

Since August 8, 2018 the members of the Audit Committee are Michael Hoffmann (Chairman), Christoph Barchewitz and Thomas Harding. The Chairman of the Audit Committee is independent, has specific knowledge and experience in the application of accounting principles and internal control procedures and thus satisfies the requirements of Sec. 100 AktG. The members of the Audit Committee have expert knowledge in financial reporting and auditing and the composition meets all requirements relating to independence for the purposes of the Commission Recommendation of February 15, 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board (2005/162/EC) and the recommendations of the German Corporate Governance Code.

Management Board Committees

The Management Board has not established any committees. It performs its management function as a collective body, with responsibility for specific areas being assigned to the individual members of the Management Board.

Annual General Meeting and Shareholders

The shareholders of Westwing Group AG exercise their rights, including their right to vote, at the Annual General Meeting. Each share in the Company grants one vote.

The ordinary Annual General Meeting is held within the first six months of the fiscal year. The agenda of the Annual General Meeting and the reports and documents required for the Annual General Meeting are published on the Company's website **(http://ir.westwing.com)**.

Fundamental resolutions are adopted by the Annual General Meeting, including on the appropriation of profit, the exoneration of the Management Board and Supervisory Board, the election of the auditor, amendments to the Articles of Association and capital measures. The Annual General Meeting gives the Management Board and the Supervisory Board the opportunity to meet the shareholders and discuss the further corporate development.

To facilitate the personal exercise of their rights, Westwing Group AG makes available a proxy who is bound by instructions and who may also be contacted during the Annual General Meeting. The invitation to the Annual General Meeting explains how instructions may be given ahead of the Annual General Meeting. In addition, shareholders may arrange to be represented at the Annual General Meeting by a proxy of their choice.

Other Corporate Governance Issues: Management Board Remuneration

The Management Board's remuneration system is regularly the subject of the consultations, reviews and revisions by the Supervisory Board.

The Management Board contracts of Westwing Group AG contain fixed and variable remuneration components. For all members of the Management Board, variable remuneration is in line with the requirements of Sec. 87 (1) sentence 3 AktG. Some form of remuneration is linked to the achievement of economic goals. Such variable remuneration can only be claimed if business performance is positive. In this way, the remuneration structure is designed to encourage sustainable corporate development, thus optimizing the incentive and risk-taking effect of variable remuneration.

Supervisory Board remuneration

The remuneration of the Supervisory Board is approved by the Annual General Meeting in accordance with Art. 13 of the Articles of Association. On August 7, 2018, the Annual General Meeting decided that each member of the Supervisory Board shall receive an annual fixed payment of EUR 25,000.00; however, instead (i) the Chairman of the Supervisory Board shall receive an annual fixed payment of EUR 40,000.00, (ii) the Vice Chairman of the Supervisory Board shall receive an annual fixed payment of EUR 30,000.00, (iii) the Chairman of the Audit Committee shall receive an additional compensation of EUR 20,000.00 and (iv) the members of the audit committee shall receive an annual fixed payment of EUR 10,000.00.

In addition, each member of the Supervisory Board shall be reimbursed for all expenses incurred in exercising this post and any VAT payable on their remuneration and expenses.

Furthermore, the Company has included the members of the Supervisory Board in a D&O group policy.

No performance-linked remuneration is paid to members of the Supervisory Board.

Reportable Securities Transactions and Shareholdings of the Management Board and Supervisory Board

The members of the Management Board and Supervisory Board of Westwing Group AG and closely related persons are required under Art. 19 (1) of Regulation (EU) No. 596/2014 of the European Parliament and of the Council on Market Abuse of April 16, 2014 (Market Abuse Regulation), to notify the Company of transactions relating to shares of Westwing Group AG or financial instruments linked to the same promptly and no later than three business days after the date of the transaction. The Company publishes the reports promptly in accordance with Art. 19 (2) of the Market Abuse Regulation and no later than three business days after the transaction. Reports are available on the Company's website **(http://ir.westwing.com)**.

Appropriate Opportunity and Risk Management

A responsible approach to opportunities and risks is a priority for Westwing Group AG. This is ensured by having extensive opportunity and risk management to identify and monitor the major opportunities and risks. The system is being continuously enhanced and adapted to the changing conditions.

The management report contains detailed information on the Company's risk management system. The risk management of Westwing Group AG is presented beginning on page 53, strategic opportunities and risks are described on page 62 and information on group financial reporting is provided starting on page 85 of the notes to the financial statements.

Committed to Transparency

As part of ongoing investor relation activities, all important dates for shareholders, investors and analysts during the upcoming fiscal year are published in our financial calendar at the beginning of the year. The financial calendar, which is regularly updated, is available on the Company's website **(http://ir.westwing.com)**.

The Company informs shareholders, analysts and journalists according to uniform criteria. The information is transparent and consistent for all capital market participants. Ad hoc reports and press releases as well as presentations of press and analyst conferences are published immediately on the Company's website.

Insider information (ad hoc publicity), voting rights notifications and securities transactions by members of the Management Board and Supervisory Board and related persons ("directors' dealings") are announced by Westwing Group AG in accordance with the legal requirements. This information is also available on the Company's website **(http://ir.westwing.com)**.

Financial Reporting

In 2018, the Annual General Meeting elected Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Munich office, as auditor of the separate and consolidated financial statements. In preparation, the auditor presented a declaration that there are no business, financial, personal or other relationships between the auditor, its governing bodies and audit managers, on the one hand, and the Company and its directors, on the other, which could give cause to doubt the auditor's independence.

Further Information

Further information on the work of the Supervisory Board and its committees and on its cooperation with the Management Board is provided in the Supervisory Board Report.

Westwing Group AG
Management Board

02

COMBINED MANAGEMENT REPORT

1. BACKGROUND TO THE GROUP

The Westwing Group headed by Westwing Group AG (short: "Westwing" or "Group") considers itself as the leading brand and platform in Home and Living eCommerce in Europe. Through our "shoppable magazine" concept, we aim to inspire our loyal, mostly female customers with a curated product selection and gorgeous content. With unparalleled loyalty, we are generating around 85 % of sales from customers who visit our sites and apps on average 100 times per year.

Our business model is tailored around inspiration and customer engagement and is closely linked to our mission "To inspire and make every home a beautiful home" and to our vision "To be the European leader in Home and Living eCommerce, by creating the most inspiring customer experience and the most loved brand."

Since Westwing's founding in 2011 our strategy has always been to provide our customers a perfect blend of inspiration like a daily interior magazine with the unique opportunity to discover and instantly shop their favorite Home and Living pieces. This unique shopping experience distinguishes us from typical Home and Living eCommerce, which is mostly search based. We offer our customers all relevant Home and Living categories such as textiles, furniture, lightings and decoration, and thereby can address all their Home and Living needs.

We give our customers a reason to come back to us every day. Through our daily themes, our customers can find fresh daily inspiration from décor tips to home stylings with matching products. Additionally, they find our over 15,000 best-sellers on WestwingNow, our permanent assortment website. Our beautiful, curated merchandize includes our Own Label and Private Label products as well as those from over 5,000 global Home and Living suppliers. Our world-class creative team of more than 100 creatives ensure that style and quality remain core to all our business activities allowing us to always provide our customers with variety, excitement and freshness.

In the first half of 2018 it was decided by management and approved by the Advisory Board to divest the Brazilian operating company as well as the operations in Russia and Kazakhstan and to focus the business on Europe. Both entities were sold in Q4 2018. We refer to the relevant disclosures about these divestments in the notes to the consolidated financial statements. All figures for the year 2018 which are commented in the following chapters refer to continuing operations only, if not stated otherwise. To enable comparison, prior-year figures were adjusted accordingly.

Westwing is targeting a very attractive market that is approximately EUR 117bn in the geographies in which we operate and is at the tipping point of online acceleration with just 5 % online penetration. Our unique business model, fueled by our customer loyalty, has resulted in Westwing growing in 2018 to EUR 254m in revenues at 16 % year-over-year growth and with a positive 1.2 % Adjusted EBITDA margin.

1.1 Business Activities

Our business activities follow our company mission and focus on inspiration and outstanding customer experience.

CURATED PRODUCT SELECTION TO INSPIRE WITH THE BEST OF THE GLOBAL HOME AND LIVING MARKET

In order to be able to offer our customers an inspirational and curated selection of Home and Living products, our creative teams constantly seek to identify new styles and trends ahead of our competitors since the heart of our business relies on us being leaders in creativity.

Our curated offering covers the entire range of Home and Living products. In 2018, we generated gross merchandise volume (GMV, see also chapter 1.3) of EUR 291m, of which we derived 22 % from textiles and rugs, 16 % from home décor and accessories, 11 % from kitchen and dining, 11 % from lighting, 23 % from large furniture, 8 % from small furniture and 9 % from other products.

We adhere to a structured assortment planning process in our daily themes with combined efforts from our creative, buying and sales teams along the entire process. Our quarterly planning process is led by our founder and Chief Creative Officer Delia Fischer together with a team of experienced creative directors. It starts with a style guidance that results in mood boards that form the foundation for merchandizing plans.

The combination of our Own Label and Private Label with third-party products enables us to offer a broad and relevant assortment. On October 25, 2018 Westwing launched our much-awaited autumn/winter collection showcasing 1,500 gorgeous Westwing Collection products. In Q4 2018, our Own Label and Private Label share of GMV was at 18 % vs. 12 % Q4 2017. Our long-term goal is to grow our Own Label and Private Label share to 50 % of GMV.

Additionally, we work with over 5,000 global and local third-party suppliers to provide our customers the best of the Home and Living market. We partner with well-known brands such as Safavieh, KitchenAid, WMF, Rolf Benz and many more that we have vetted with our standards concerning quality and reliability.

Our relentless focus on style and creativity ensures that we provide our customer with an exciting variety of the most gorgeous Home and Living products.

INSPIRATIONAL CONTENT TO STRENGTHEN OUR CUSTOMER LOYALTY

We are a “shoppable magazine” combining the best of two worlds: eCommerce and interior design magazine.

We present our products alongside beautiful visual content such as shoppable interior themes, home stories and home styling tips. Some of our popular themes in 2018 included “White summer Chic,” “Interior tricks from our founder Delia Fischer,” “This is how the Westwing team lives,” “Cote d’Azur feeling,” or gifting themes closer to the Christmas season. Moreover, we also work with influential celebrities and style icons so that our customers can be inspired by their home stylings. In 2018, we worked with the likes of Emma Willis, Chiara Ferragni (16m followers on Instagram), Leoni Hanne (1.9m followers on Instagram) and Mandy Capristo. Our customers can find videos with styling tips for some of our products as well as user-generated pictures of how other customers styled the product in their homes. This helps customers better visualize how the products we have on our website might fit into their own homes.

Our content creation is done by a large team of creative talent such as art directors, interior designers, videographers and photographers. Some of them were previously magazine editors-in-chief and editors (from Home and Living and fashion), fashion stylists, film makers, fashion photographers, and graphic designers.

The content creation teams work with the style and merchandizing teams to find the right combination of inspiration and merchandizing to thrill our customers.

ORGANIC MARKETING APPROACH TO DRIVE GROWTH AND BUILD A TRUE LOVE BRAND

Our marketing activities are aimed at creating an international Home and Living love brand. Therefore, we focus on organically building awareness to our brand and increasing customer engagement by leveraging our inspirational Home and Living content. Social media channels, such as Facebook, Instagram and Pinterest, make up the core of our marketing activities and as of December 31, 2018, we had approximately 1.2 million followers on Instagram and 1.7 million followers on Facebook.

We focus on women aged 25 to 60, who are interested in interior decoration and want their home to be as stylish as their wardrobe. Our typical customers want to have a home, not just a house. They see their home as a reflection of their personality. They have a strong emotional connection to their home.

With our organic marketing model, we have been growing in revenue by 16 % in 2018 at a marketing ratio of just 7 % of revenue. We believe that a continued focus on building our Westwing brand will help us to further grow with attractive economics and maintain very low customer acquisition costs. This will also increase customer loyalty and our share of wallet with existing customers.

HIGHLY SCALABLE PLATFORM WITH FULL VALUE CHAIN CONTROL

Our scalable platform includes a lean and cost-efficient fulfilment process, as well as an award winning customer service approach.

Our fulfilment process is geared towards customer satisfaction through high reliability across our different product categories. We have six international logistic and distribution warehouses spanning approximately 75k square meters that are supported by cooperations with 20 last-mile carriers and multiple other logistics partners.

We operate five local customer service centers with a staff of approximately 110 experts who pursue a multi-channel support approach, responding by email, telephone and via social media. The success of our customer service operations is evidenced by generally high satisfaction among our customers and high customer loyalty. Our customer service was ranked the best in the industry by a DGTV (Deutsche Gesellschaft für Verbraucherstudien) study in Germany.

Additionally, we are now offering interior design services to our customers. Through this (still-in-piloting) service, our customers can get the help of our interior design specialists. In 2018, our interior design team crossed the mark of 1,000 completed design projects and continues to see overwhelming demand from our customers.

Our rating on "Trustpilot" for our German operations in 2018 was 9.4 out of 10 points based on nearly 12,000 reviews.

1.2 Group Structure

The Group is headed by our holding company, Westwing Group AG, a stock company registered at Berlin District Court, Germany, under the number HRB 199007 B. The Company is headquartered at Moosacher Str. 88, 80809 Munich, Germany.

As of December 31, 2018, 25 companies are fully consolidated in the accounts of the Westwing Group. In the fourth quarter of 2018, Westwing sold its operations in Russia and Brazil to fully concentrate on the European core business. We refer to the notes to the consolidated financial statements.

Since October 9, 2018, Westwing has been listed on the regulated market of the Frankfurt Stock Exchange.

Among Westwing's pre-IPO investors are well-known companies such as Rocket Internet, Kinnevik, Summit Partners, Access Industries (AI European Holdings) or Tengelmann Ventures, which are unchanged shareholders as of the balance sheet date. For more information please refer to the chapter 3 Development of the Westwing Share.

1.3 Performance Measurement System

Westwing manages the operating business via two segments "DACH" and "International" using the key performance indicators revenue, Adjusted EBITDA and Adjusted EBITDA margin. The DACH segment is comprised of Germany, Switzerland and Austria. The International segment consists of Spain, Italy, France, Poland, the Czech Republic, Slovakia, Belgium and the Netherlands.

We define EBITDA as the sum of earnings before interest and taxes (EBIT) and depreciation, amortization and impairments. We calculate Adjusted EBITDA by making adjustments to EBITDA for share based compensation (income) / expenses, IPO costs recognized in profit or loss (for 2018 only) and central costs allocated to discontinued operations (for as long as this cost allocation is done).

The Adjusted EBITDA margin is defined as Adjusted EBITDA as a percentage of revenue.

In addition to revenue, Adjusted EBITDA and Adjusted EBITDA margin, other both financial and non-financial performance indicators for corporate management include the following:

- Private Label Share: Share of Private Label GMV as percentage of total GMV.

- GMV: Defined for the relevant period as the product value of all valid orders excluding failed and cancelled orders and less future projected cancellations. Future projected cancellations are estimated based on historical patterns. Returns are included.

- Number of orders: Defined as total number of valid orders (i.e. orders for which payment has been processed successfully and which have not been cancelled), during the twelve months prior to the relevant period end, irrespective of returns.

- Average basket size: Defined as GMV for the relevant period divided by the total number of orders for the same period.

- Active Customers: Defined as customers who have placed at least one valid order (i.e. an order for which payment has been processed successfully and which has not been cancelled), during the twelve months prior to the end date of the relevant period, irrespective of returns.

- Average Orders per Active Customer in the preceding twelve months: Defined as total number of orders in the last twelve months from the relevant period end date divided by Active Customers as of the end date of the relevant period.

- Average GMV per Active Customer in the preceding twelve months: Defined as GMV in the last twelve months from the relevant period end date divided by Active Customers as of the end date of the relevant period.

- Mobile visit share: Defined as the share of visits via Mobile Devices as percent of total visits.

- Contribution margin: Defined as the margin of the total of gross profit less fulfilment expenses in percent of revenue.

1.4 Research and Development

As an eCommerce company it is very important for us to stay agile and flexible while at the same time making no compromises on inspiration, look and feel of the sites and apps, and customer experience. Since founding, Westwing has invested in software and developed it further to cover the growing internal and external business requirements. An important development was the expansion of the supported technological landscape to address the increasing focus on mobile platforms. Westwing provides apps for iOS and Android devices as well as smartphone and tablet-optimized sites. New technologies that we believe will have a huge impact on our industry, such as Augmented Reality, are other focus areas.

Westwing develops and uses different software of which large amounts are capitalized in line with IAS 38. To maintain its software architecture, Westwing has established a skilled in-house technology team that provides central support to all countries. During the 2018 fiscal year, Westwing's net book value of intangible assets increased by EUR 4.0m to a total of EUR 8.0m. The share of capitalized development costs as percent of total technology costs was about 51 % in 2018 (2017: 24 %). Amortization of capitalized development costs of the year 2018 amounted to EUR 1.5m (2017: EUR 3.3m).

2. ECONOMIC DEVELOPMENTS

2.1 Overall Situation of the Economy and Industry-Specific Conditions

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

Macro-economically, Europe developed favorably in 2018: According to estimates by the IMF[2], real GDP had an estimated growth of 2.2 %, providing a favorable business climate in general. In Germany, Westwing's largest market, real GDP growth was 1.9 %, continuing the positive development of the prior years.

Westwing had exposure during the most of 2018 to the emerging markets currencies – the Brazilian real (BRL) and the Russian ruble (RUB) – before it discontinued its operations in these two regions in October and November 2018. The currencies weakened against the euro (EUR) in 2018, specifically, the BRL/EUR exchange rate decreased from 0.2517

2 International Monetary Fund: World Economic Outlook Database October 2018

at the end of 2017 to 0.2250 at the end of 2018 (devaluation of 11 %) and the RUB/EUR decreased from 0.0144 at the end of 2017 to 0.0126 at the end of 2018 (devaluation of 13 %). The impact of this development became particularly evident when translating the corresponding revenues from local currency to euro, which are shown as discontinued activities in the income statement for 2018.

The European home and living eCommerce market is expected to develop favorably with a predicted revenue growth rate of 9.6 % 2019 to 2023, and Germany with a corresponding compound annual growth rate (CAGR) of 8.3 %.[3]

The global Home and Living market amounted to approximately EUR 575 billion[4] in 2017. The eleven countries in which Westwing operates cover approximately EUR 117 billion[4] in 2017; this market consists of over 300 million people. Based on Euromonitor data and management estimates, the Home and Living eCommerce market in Westwing's geographies grows on average between 10 % and 15 % per year, with Westwing outperforming this market.

Currently the market for Home and Living products, compared to other retailing categories, does not yet show a high online penetration. While online penetration[4] in Europe for consumer electronics is at 23.7 % and for fashion is at 12.0 %, Home and Living is currently at only 4.8 %. The significant growth potential can be already seen in the UK and the US markets, with online penetration for Home and Living of 14 %. Given that the total (i.e. offline and online) Home and Living market is of similar size compared to the fashion market, there is a huge opportunity for Westwing as Home and Living moves online.

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

- **Broader product offering:** Online sales channels provide consumers with a larger offering and a better comparability, and thus they are more relevant than ever before. An online retailer can offer a selection of products that no bricks and mortar retail store can offer, due to the physical constraints of stocking such a wide selection of goods. This attribute has enabled several players to swiftly become category leaders through a vast selection of products or services available combined with a wide geographical reach.

- **Better availability for customers:** For most consumers, visiting a physical retail store that meets their needs requires generally significantly more effort than ordering online. In some countries, home delivery is the norm, which makes the products even more accessible. In addition, browsing items is convenient for the customer; online stores are open 24 hours a day, seven days a week, and they save time and costs otherwise spent traveling from shop to shop. Many pick-up points, typically provided by postal offices, gas stations, food retail stores and similar service providers, have extended opening hours and permit increasingly easier pick-up and returns in case products are not delivered directly to the home. Some logistic partners also offer delivery options to store packages at the location of preference individually when people are not at home.

- **Aging of millennials:** The generation of millennials who grew up familiar with the internet are gradually entering the age in which they increase Home and Living purchases. While even at a younger age and lower disposable income, many of them were engaging in fashion eCommerce, this generation is very familiar with eCommerce in general. As they grow older and are furnishing their own homes, this demographic shift will favor Home and Living eCommerce penetration.

- **Mobile eCommerce (mCommerce):** As consumers go online more and more, the use of mobile devices, smartphones and tablets is already playing a crucial role in the eCommerce purchase decision-making process. The eCommerce sales via mobile devices continue to grow rapidly, providing users with market transparency and the possibility of anywhere, anytime interaction.

3 Statista: eCommerce Report 2018

4 Euromonitor International

These are relevant proof points that eCommerce businesses are in a good position to grow at much higher rates than the traditional retail business models over the coming years.

This has been especially true for example for consumer electronics, music, books, fashion and shoes where eCommerce penetration has increased strongly over the recent years. We expect that the Home and Living market will experience a similarly rapid development.

Given our early entry into this growing market, Westwing is well positioned to benefit from the positive trends of the market and industry. We consider ourselves among the market leaders in our segment in most of the geographic areas in which we are active.

We believe that the online Home and 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

2018 has been a very important year for Westwing, as it marks the first year that we are profitable for the full year on an Adjusted EBITDA level. We achieved revenues of a quarter of a billion (EUR 253.9m in 2018) with 15.6 % year-over-year growth and 1.2 % Adjusted EBITDA margin.

Thus, we met our guidance to capital markets on both, revenue (15 – 20 % growth) and Adjusted EBITDA (approximately 1 – 2 % margin). We exceeded our forecast made in the Annual report 2017 of higher-single digit to lower double-digit growth in revenue and furthermore we are in line with the expected improvement of Adjusted EBITDA.

Customer centricity and loyalty remained a strong theme at Westwing in 2018. We served an active customer base of over 934 thousand customers (as of December 31, 2018), recorded 2.4 million orders for the full year, and sold a product every 5 seconds. We increased the share of wallet with our customers measured as GMV per active customer LTM (last twelve months) from EUR 301 in 2017 to EUR 312 in 2018. 90 % of our customers are women, as they make the majority of the Home and Living decisions.

Strategically we focused on five major themes in 2018:

Grow Profitably for the Full Year

Our key goal for 2018 was to become profitable in 2018 for the full year while growing strongly on an Adjusted EBITDA level. Revenue increased by 15.6 % in 2018 to EUR 253.9m. Adjusted EBITDA margin, which is among the key metrics management used to assess the profitability, improved from – 1.8 % in 2017 to positive 1.2 % in 2018, thus being the first time profitable for the year for the Group on this level. In absolute numbers Adjusted EBITDA for the Group amounted to EUR 3.1m (prior year: EUR – 4.0m). In Q4 2018, the seasonally strongest quarter in the Home and Living market, Westwing reached a positive Adjusted EBITDA margin of + 2.3 %. As in the prior year, free cash flow, (i.e. sum of operating and investing cash flow) was positive in the fourth quarter at EUR 12.7m, including the cash effect from the sale of the affiliates in Brazil and Russia of EUR 11.0m.

Showcase DACH Segment as Role Model with High Growth and Profitability

In our DACH segment we are the farthest in building a profitably growing company. In addition to our daily themes, we started our permanent assortment already in 2015 and were able to increase the share of our Own and Private Label products to 24 % of GMV in Q4 2018. Our marketing model focusing on organic marketing is already in a mature state, driving stronger growth. Given that we have our full business model in place in the DACH segment, we achieved 36 % growth to EUR 133.2m in revenue, contributing 52 % to the Group revenue. The DACH segment was sustainably profitable on the level of Adjusted EBITDA margin in 2018 at 4.3 %. The DACH segment with its strong performance serves as a blueprint for profitable growth in other international markets.

Increase Share of our Own and Private Label products for better customer experience and increased profitability
Our Own and Private Label products are very well received by our customers as they address the latest trends in Home and Living. Additionally, our Own and Private Label products help boost our margins as they have typically 8 – 10 percentage points higher margin. The share of GMV from Own and Private Label increased to 18 % of GMV in Q4 2018 compared to only 12 % in Q4 2017.

Start the International Roll-out of our Complete Business Model
To replicate the success of our DACH segment, we need four key elements in place:

- Our daily themes are the foundation to drive customer engagement and loyalty. Every day, we offer a broad range of new, beautiful products to customers. This is how Westwing has started in each market.

- Our permanent assortment, WestwingNow, presents our more than 15,000 bestsellers to our customers and drives increase of share of wallet.

- Our Own and Private Label products are unique products that we have created and tailored to our customers' needs. Furthermore, they provide a very attractive margin.

- Our organic marketing is the foundation for profitable growth at low customer acquisition costs and reinforces our brand positioning and thus customer loyalty.

In 2018, we made significant progress to replicate the key elements of our business model in our International segments:

- We launched our permanent assortment, WestwingNow, to already five of eight international countries

- We increased the Private Label share internationally to 9 % of GMV in Q4 2018.

- We ramped up the organic marketing team by 40 people in Q4 2018, thus also increasing the focus on the international markets.

These investments are expected to bring results gradually and put the international markets on a trajectory to follow the DACH role model. The International segment is developing positively in most markets in 2018 and contributed a revenue of EUR 120.7m to the Group.

However, we currently see challenges in Italy (14 % of Group GMV). Westwing was previously operating in Italy under the brand name Dalani and was positioned primarily towards lower income customers and bargain hunters who lack loyalty. In order to bring Italy to the Westwing brand positioning that exists in DACH we initiated the required rebranding in late Q1 2018. Despite these changes we are currently seeing double digit decrease in revenue, weighing the international segment down. Therefore, growth of the international segment was at – 1 % year on year as the negative development in Italy could not fully been compensated by the positive development of the total other International segment. A complete transformation project to combat the decline in Italy has been setup and is now in progress.

Focus on Consumer Technology to Improve Customer Experience
We relentlessly focus on our customers and want to provide them with the best user experience on our sites and apps. We therefore have made several improvements on the front end for our customers. Additionally, we are also making further progress on potential future industry changes such as Augmented Reality.

We have made good steps in achieving our strategic goals leading to us being profitable on Adjusted EBITDA level for the first time for the full year and in line with our guidance. We are satisfied with our 2018 results despite the unusually warm summer/fall affecting eCommerce demand in general and challenges with our Italian business. The successful year 2018 creates a good starting position for the 2019 year.

2.2.1 REMARKS ON IMPACT FROM NEW ACCOUNTING POLICIES

With the exception of the effects from first-time application of IFRS 9 "Financial Instruments", IFRS 15 "Revenue from Contracts with Customers" and IFRS 16 "Leases" the accounting policies and recognition and measurement methods applied in the consolidated financial statements as of December 31, 2017 have been applied without change. These effects are further explained in the notes to the consolidated financial statements under note 2.2. "New Standards, Amendments and Interpretations." The primary impact results from the the first–time application of IFRS 16 as from January 1, 2018. Most leasing and rent expenses are no longer shown within general and administrative expenses but are reported as interest expenses and depreciation and accordingly are not included in Adjusted EBITDA. This change in accounting had a positive effect on our Adjusted EBITDA with EUR 4.3m in the current fiscal year.

2.2.2 RESULTS OF OPERATIONS

The consolidated income statement and other financial data show steady growth in revenue and an absolute and relative improvement in margin. The favorable development and ongoing improvement across many key dimensions in 2018 are apparent in the key performance indicators as described below. We have achieved our forecast for revenue and Adjusted EBITDA for 2018.

CONDENSED CONSOLIDATED INCOME STATEMENT

The condensed Consolidated Income Statement as reported under IFRS before management adjustments looks as follows:

EUR m	2018	In % of revenue	2017	In % of revenue
Revenue	**253.9**	**100.0**	**219.6**	**100.0**
Cost of sales	– 145.5	– 57.3	– 127.3	– 58.0
Gross Profit	**108.4**	**42.7**	**92.3**	**42.0**
Fulfilment expenses	– 54.2	– 21.3	– 46.7	– 21.2
Marketing expenses	– 17.8	– 7.0	– 13.9	– 6.3
General and administrative expenses	– 55.9	– 22.0	– 55.1	– 25.1
Other operating expenses	– 0.7	– 0.3	– 1.4	– 0.6
Other operating income	0.7	0.3	0.7	0.3
Operating Result	**– 19.5**	**– 7.7**	**– 24.0**	**– 10.9**

The following table shows the reconciliation from operating result to Adjusted EBITDA:

EUR m	2018	2017
Operating result	**– 19.5**	**– 24.0**
Share-based compensation expenses	8.4	10.8
IPO costs recognized in profit or loss	4.4	–
Central costs allocated to discontinued operations	2.6	4.0
Depreciation, amortization and impairments	7.2	5.1
Adjusted EBITDA	**3.1**	**– 4.0**
Adjusted EBITDA margin	1.2 %	– 1.8 %

The adjusted consolidated income statement we use to comment on the operating development of the individual positions is excluding share-based compensation expenses and IPO costs recognized in the income statement, which were removed for reasons of comparability and to add clarity to the results of operations. Depreciation, amortization and impairments as well as central costs allocated to discontinued operations are shown separately to calculate Adjusted EBITDA for continuing operations. The operations in Brazil and Russia were sold in Q4 2018, however the central costs incurred were allocated to the whole year due to handover etc.

EUR m	2018	In % of revenue	2017	In % of revenue
Revenue	**253.9**	**100.0**	**219.6**	**100.0**
Cost of sales	– 145.5	– 57.3	– 127.3	– 58.0
Gross Profit	**108.4**	**42.7**	**92.3**	**42.0**
Fulfilment expenses	– 55.1	– 21.7	– 45.8	– 20.9
Contribution Profit	**53.3**	**21.0**	**46.5**	**21.2**
Marketing expenses	– 17.7	– 7.0	– 13.9	– 6.3
General and administrative expenses	– 42.2	– 16.6	– 45.1	– 20.5
Other operating expenses	– 0.7	– 0.3	– 1.4	– 0.6
Other operating income	0.7	0.3	0.7	0.3
Central costs allocated to discontinued operations	2.6	1.0	4.0	1.8
Depreciation, amortization and impairments	7.2	2.8	5.1	2.3
Adjusted EBITDA	**3.1**	**1.2**	**– 4.0**	**– 1.8**

Revenues for the year comprise the following:

EUR m	2018	In % of revenue	2017	In % of revenue
Revenue from the sale of products	245.0	96.5	210.2	95.7
Revenue from shipping charges	10.4	4.1	10.6	4.8
Other revenue	2.9	1.1	2.2	1.0
Sales reductions	– 4.4	– 1.7	– 3.4	– 1.5
Total	**253.9**	**100.0**	**219.6**	**100.0**

RESULTS OF SEGMENTS

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

EUR m	2018	In % of revenue	2017	In % of revenue
DACH	133.2	52.5	97.6	44.4
International	120.7	47.5	122.0	55.6
Total	**253.9**	**100.0**	**219.6**	**100.0**

Adjusted EBITDA of the segments developed as follows:

EUR m	2018	Margin	2017	Margin
DACH	5.7	4.3 %	1.3	1.3 %
International	– 2.7	– 2.2 %	– 5.1	– 4.2 %
HQ/Reconciliation	– 0.0	–	– 0.3	–
Total	**3.1**	**1.2 %**	**– 4.0**	**– 1.8 %**

In the reporting period, the following non-financial key performance indicators developed as follows:

OTHER KEY PERFORMANCE INDICATORS

	2018	2017	Change
Private Label share (in %)	16 %	10 %	6pp
GMV (in EUR m)	291	252	15.2 %
Number of orders (in k)	2,399	2,220	8.0 %
Average basket size (in EUR)	121	114	6.6 %
Active Customers (in k)	934	838	11.4 %
Average orders per Active Customer in the preceding twelve months (in EUR)	2.6	2.7	– 3.0 %
Average GMV per Active Customer in the preceding twelve months (in EUR)	312	301	3.4 %
Mobile visit share	73 %	70 %	3pp

Westwing increased revenue from EUR 219.6m in 2017 to EUR 253.9m in 2018, at a marketing ratio of only 7.0 % of revenue (2017: 6.3 %). This corresponds to a year-over-year revenue growth rate of 15.6 %. We have achieved this despite very hot and dry weather across Europe, which negatively impacted eCommerce in general, and the challenges in Italy with decreasing revenue. The increase in Group revenue was driven by both, a higher number of active customers and an increase in the share of wallet with our customers.

As of December 31, 2018, the Group had 934 thousand active customers compared to 838 thousand active customers as of December 31, 2017, in the continuing operations. Revenue growth was supported by Westwing's successful further build-up of its Own Label and Private Label offering. The Own Label and Private Label share grew by 6 percentage points from 10 % of GMV in 2017 to 16 % of GMV in 2018. Adding to existing Own and Private Label brands, Westwing prepared and successfully launched its Westwing-branded autumn/winter collection on October 25, 2018, offering a wide range of Home and Living products for the colder season.

Westwing's gross profit margin was at 42.7 % on a slightly higher level than 2017 (42.0 %).

Fulfilment expenses[5] (before share-based compensation) as percent of revenue increased compared to the prior year to 21.7 % (2017: 20.9 %). This development was primarily driven by higher logistic costs, especially due to costs related to a move of our German warehouse to Poland will be completed in early 2019 as well as negative scale effects in Italy.

Marketing expenses (before share-based compensation) in percentage of revenue was slightly higher at 7.0 % (2017: 6.3 %) which is in line with the Company's strategy to invest even stronger into organic marketing. Marketing expenses in absolute terms rose to EUR 17.7m (2017: EUR 13.9m).

General and administrative expenses (before share-based compensation) decreased in absolute terms compared to the prior year to EUR 42.2m (2017: EUR 45.1m). In percent of revenue this development looked even more significant with 16.6 % in 2018 compared to 20.5 % in 2017. This is primarily due to better cost discipline and an increased efficiency in the departments. In addition, higher severance payments had been included in 2017 as a result of the centralization of the Dutch business and Berlin non-logistics activities at the headquarter in Munich, which were not incurred on the same level in 2018.

Management uses Adjusted EBITDA as key metric to manage profitability. The Adjusted EBITDA margin improved by 3.1 percentage points from – 1.8 % in 2017 to + 1.2 % in 2018. The Adjusted EBITDA margin was + 2.3 % in the fourth quarter 2018, hence once again positive as it was in the same period of the prior year. The Adjusted EBITDA improved by EUR 7.1m to EUR 3.1m driven by the growth in revenues and thus higher absolute profit contribution as well as a better operating leverage. In addition, the first-time application of IFRS 16 led to lower operating expenses of EUR 4.3m

5 Fulfilment expenses include shipping costs.

in the current period. Amortization, depreciation and impairments increased by EUR 2.1m to EUR 7.2m primarily due to the software capitalized in the recent years and the first-time application of IFRS 16.

The net financial result amounted to EUR – 6.9m, thus improved by EUR 1.6m compared to the prior year (2017: EUR – 8.5m). This development was mainly due to an interest income from the valuation of financial liabilities at fair value of EUR 1.8m. The tax income of EUR 0.4m (2017: tax expense EUR 0.2m) results primarily from the recognition of a deferred tax asset in Spain.

In the 2018 fiscal year the net result from continuing activities amounted to EUR – 26.0m, improving the net loss by EUR 6.6m compared to the prior year (EUR – 32.6m). Lower expenses from share-based compensation of EUR 8.4m in 2018 (compared to EUR 10.8m in 2017) and the better financial result of EUR – 6.9m (2017: EUR – 8.5m) also caused this improvement.

The net result from discontinued operations in 2018 amounted to EUR 23.6m (2017: EUR 1.1m) and is mostly the result of the income from the disposal of the subsidiaries and deconsolidation effects in Q4 2018.

Gross merchandise volume ("GMV"), defined as product value including all valid online orders (excluding the offline stores) after cancelations and before returns, increased from EUR 252.4m in 2017 to EUR 290.8m in 2018 representing growth of 15.2 % being similar to the percentage of the revenue increase. This increase was based on a total of 2.4m orders (2017: 2.2m) placed by 934k (2017: 838k) Active Customers, each of them increasing their spend to an average of EUR 312 in 2018, compared to EUR 301 in 2017.

Mobile visit share in 2018 continued to increase to 73 % (2017: 70 %). This development is in line with our expectation that mobile channels will become increasingly important over time.

2.2.3 FINANCIAL POSITION

Westwing's financial position significantly strengthened as result of the Initial Public Offering on October 9, 2018, resulting in a net cash position of EUR 108.1m as of year-end.

CONDENSED STATEMENT OF CASH FLOWS

EUR m	2018	2017
Cash flows from operating activities	– 9.9	– 8.2
Cash flows from investing activities	4.4	– 5.4
Cash flows from financing activities	114.2	10.9
Cash flows from discontinued activities	1.0	– 0.8
Net decrease in cash and cash equivalents	109.7	– 3.5
Effect of exchange rate fluctuations on cash held	– 0.5	– 0.6
Cash and equivalents as of January 1	13.8	17.9
Cash and Equivalents as of December 31	**123.0**	**13.8**

Cash outflow from operating activities from continuing operations totaled EUR – 9.9m (2017: outflow of EUR – 8.2m), an increase of EUR 1.7m. Adjusted for IPO costs of EUR 4.4m that are included here, cash outflow would have amounted to EUR – 5.5m, representing thus an improvement of EUR 2.7m. This development is primarily due to a better operating result. Net working capital – defined as inventory plus goods prepayments, current trade and other financial receivables less trade payables, accrued liabilities and contract liabilities – has increased by EUR 13.6m to EUR – 4.8m in 2018 (2017: EUR – 18.4m, including discontinued operations).

Cash inflows from investing activities amounted to EUR 4.4m (2017: EUR – 5.4m). This positive development is primarily due to the proceeds from the sale of operations Brazil and Russia in the fourth quarter 2018, which was partially offset by higher investments into intangible assets, primarily internally developed software, of EUR 5.7m (2017: EUR 3.9m).

Free cash flow (the sum of operating and investing cash flow) was again positive at EUR 12.7m in the fourth quarter of 2018, even if adjusted for the cash received for the sale of operations Russia and Brazil, supporting successful developments towards sustainable profitability.

The cash inflow from financing activities amounted to EUR 114.2m (2017: EUR 10.9m) and especially reflects the proceeds from the initial public offering on October 9, 2018, which led to gross proceeds of EUR 122.5m. They were partially offset by transaction costs of EUR 4.0m deducted directly from equity and the cash-out for the change in leasing liabilities according to IFRS 16 of EUR 4.3m which is now shown within finance cash flow and not in operating cash flow anymore.

Westwing has consistently ensured that sufficient liquid funds were available to fund operations. Westwing was able to meet its payment obligations at all times.

2.2.4 ASSETS AND LIABILITIES

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

CONDENSED STATEMENT OF FINANCIAL POSITION

EUR m	2018	2018 in % of Total	2017*	2017 in % of Total	Change in EUR m	Change in %
Total assets	**197.5**	**100.0**	**62.7**	**100.0**	**134.8**	**214.9**
Non-current assets	33.3	16.9	13.8	22.0	19.5	141.3
Current assets	164.2	83.1	48.9	78.0	115.3	235.7
Total liabilities + equity	**197.5**	**100.0**	**62.7**	**100.0**	**134.8**	**214.9**
Equity	104.9	53.1	– 65.8	– 104.9	170.7	– 259.5
Non-current liabilities	32.4	16.4	55.9	89.2	– 23.5	– 42.1
Current liabilities	60.2	30.5	72.6	115.8	– 12.4	– 17.1

* Prior-year figures include discontinued operations

Total assets amounted to EUR 197.5m at the end of 2018, an increase of EUR 134.8m when compared to the prior year (2017: EUR 62.7m). This development is mainly due to the successful initial public offering on October 9, 2018, which resulted in proceeds of EUR 122.5m as well as the first-time application of IFRS 16 that led to an increase of non-current assets of EUR 16.5m and an increase of leasing liabilities of EUR 18.0m as of December 31, 2018.

Current assets accounted for EUR 164.2m on December 31, 2018 (2017: EUR 48.9m). Cash and cash equivalents were significantly up, at EUR 123.0m (2017: EUR 13.8m). Inventory slightly increased to EUR 22.6m (2017: EUR 21.7m) due to overall revenue growth, and strong growth of WestwingNow as well as of Own Label and Private Label inventories. Trade and other current financial receivables increased to EUR 10.0m (2017: EUR 9.0m) primarily due to higher revenue volume.

Non-current assets mainly consist of property, plant and equipment as well as intangible assets. The increase is mainly driven by the first-time application of IFRS 16 which resulted in the first-time recognition of right-of-use assets amounting to EUR 20.4m as of January 1, 2018. Intangible assets, primarily representing capitalization of software development, increased by EUR 4.0m. Capitalization of software development of EUR 5.6m was partially offset by amortization of EUR 1.5m in 2018.

Current liabilities were EUR 12.4m lower compared to the prior year, at EUR 60.2m (2017: EUR 72.6m). Current loans were fully paid back in 2018 (2017: EUR 7.1m). Trade payables decreased from EUR 28.3m at the end of 2017 to EUR 24.9m as of December 31, 2018. Contract liabilities (customer prepayments) were down by EUR 3.8m at EUR 7.9m due to a lower number of open customer orders at the end of the year.

The decrease in non-current liabilities to EUR 32.4m (2017: EUR 55.9m) was mainly driven by the conversion of the liabilities from the financing round from May 2016 of EUR 40.5m into equity in September 2018. This was partially offset by the first recognition of leasing liabilities in accordance with IFRS 16 (EUR 15.8m as of December 31, 2018) and the new loan agreements entered into with GGC EUR S.À R.L. (EUR 14.9m as of December 31, 2018). In addition, the cash-settled share-based compensation programs were nearly completely replaced by equity-settled compensation programs. However, the management board members waived parts of their options from the commitment package 2016 and received instead an IPO bonus that is accounted for like a cash-settled option scheme. The value of this bonus was EUR 1.2m as of December 31, 2018.

The Company's equity increased significantly from EUR – 65.8m in 2017 to EUR 104.9m in 2018. The movement was due to the successful initial public offering leading to a capital increase of EUR 122.5m and the conversion of the liabilities from the May 2016 financing round into equity of EUR 40.5m. Other comprehensive income used to be mainly attributable to foreign exchange impact resulting from currency translations from the Russian ruble (RUB) and the Brazilian real (BRL) to euro (EUR). As these entities were disposed in Q4 2018, the remaining value of EUR 0.3m (2017: EUR 7.2m) relates only to the affiliate in Poland.

As of December 31, 2018, bank accounts of Westwing Group AG and Westwing GmbH amounting to EUR 46.3m were pledged to GGC in the course of the loan issued and the warrant agreement entered into in 2018. As of December 31, 2018, the Group had available EUR 3.0m (December 31, 2017: EUR 0.1m) of undrawn committed borrowing facilities.

In the prior year, the bank accounts of Westwing Group GmbH and Westwing GmbH (EUR 4.8m as of December 31, 2017) were pledged to Kreos in the course of the loan issued and the warrant agreement entered into in 2017. The loans were fully paid back to Kreos in 2018.

3. DEVELOPMENT OF THE WESTWING SHARE

The Westwing share is listed on the Frankfurt Stock Exchange (Prime Standard). The subscription price was set at EUR 26.00 on October 9, 2018.

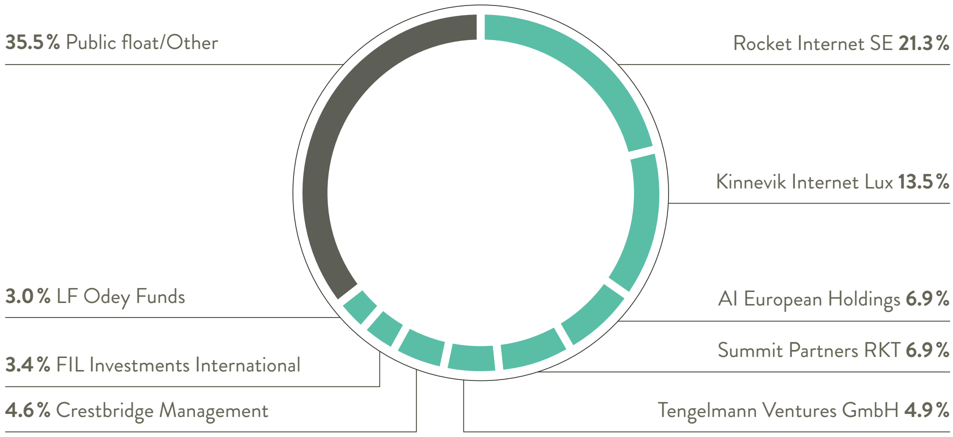
	Bearer shares without par value
Types of Shares	
Share capital	EUR 20,740,809.00
Numbers of share issued	20,740,809
Total number of shares outstanding as of December 31, 2018 (net of Treasury shares)	20,718,009
ISIN	DE000A2N4H07
WKN	A2N4H0
Share Performance 2018	
Subscription price on October 9, 2018	EUR 26.0
High 2018 (October 10, 2018, closing price)	EUR 25.40
Low 2018 (December 28, 2018, closing price)	EUR 17.43
Closing Price on December 31, 2018	EUR 17.43
Trading Liquidity 2018	
Average daily trading volume (shares)[6]	17,598
Average daily trading volume 2018 (EUR)[6]	396,747

6 Excluding the date of IPO, October 9, 2018, based on XETRA

For further details in respect to share capital structure refer to the note 18 to the consolidated financial statements.

Shareholder Structure: Our Shareholder structure is based on the voting rights (i) as last notified by the shareholders and (ii) as published by the shareholders in relation to the Company's current share capital as of December 31, 2018. Please note that the number of voting rights last notified could have changed within the respective thresholds without triggering an obligation to notify the Company[7].

SHAREHOLDER STRUCTURE[1]



Analyst Coverage: As of December 31, 2018, there are two research institutions covering Westwing.

Institutions that cover Westwing

- Berenberg
- Citi Group

4. EMPLOYEES

At the end of December 2018, Westwing employed worldwide 1,143 full time equivalents (hereinafter: FTEs[8]), which is an increase compared to 959 in 2017 (continuing operations only).

In December 2018 most staff were employed by the Munich-based legal entities Westwing Group AG (271 FTEs) and Westwing GmbH in charge of the DACH business (298 FTEs), as well as the Polish entity (232 FTEs).

At Westwing, international diversity is considered an important competitive factor. This international character is expressed in the diverse backgrounds of the employees. At the end of 2018 the Company employed more than 50 different nationalities. Likewise, Westwing sees gender diversity as an important factor. 61 % of Westwing employees are female.

7 On a fully diluted basis, our acitve founders and management own approximately 19 % of the Company with most of it in options at strike prices and vesting in 4 years (2023) to ensure long term commitment to Westwing.

8 According to Westwing definition, one FTE is equivalent to one employee working full-time.

5. NON-FINANCIAL REPORT

Our vision is to be the European leader in Home and Living eCommerce. We want to achieve this by creating the most inspiring customer experience and the most loved brand.

In order to fulfil our mission “to inspire and make every home a beautiful home” and to drive future business success, we aim to ensure corporate social responsibility throughout the whole Group. Together with our employees, partners, suppliers and customers, we want to sustainably act and grow.

To be able to support and achieve our vision, accomplish our mission and drive sustainability in the Home and Living eCommerce market, we have outlined the following Westwing values:

- Inspiration every day: We inspire our customers in everything we do, to make every home a beautiful home.

- Customer delight: We work for our customers. We strive to make them truly fall in love with our brand, and a little more with every action and interaction.

- Genuine care: We genuinely care about our customers, colleagues, and partners. We do not let people down. We are open, honest, direct, and reliable.

- Driven to get results: We get things done, in a fast and lean way, no matter the obstacles in our way.

- Unique team: We are a diverse and passionate team. We work together with integrity, creativity, fun and energy to achieve incredible things and build a company of true longevity.

- Ambition to be the best: We strive for excellence and aspire to create the European leader in Home and Living eCommerce.

Those values shape our culture and reflect what we appreciate as a company. They are the essence of our identity – the principles, beliefs or philosophy of values. They are thus timeless and do not change, they are sustainable in the longer term and they are universally applicable to all Westwing businesses, teams and employees.

As a result, we defined five material topics of activity, which are particularly important for us to achieve our aims to act and grow sustainably. These are Employees and Diversity, Environmental and Climate Protection, Human Rights in our Supply Chain, Customer Relationship and Data Protection as well as Anti-Bribery and Anti-Corruption initiatives at Westwing.

Our Governance, Risk and Compliance (GRC) function is an integrated collection of capabilities that enable an organization to reliably achieve objectives, address uncertainty and act with integrity. It consists of a set of functions that oversees and manages risks and compliance across the organization to reliably meet Company objectives.

The GRC monitors risks that might impact our business performance, which includes not only financial risks, but also reputational, social and environmental risks. All identified risks are visualized to facilitate comparison of the risks’ relative priority and to provide an overview of Westwing Group´s total risk exposure. The rating of risks reveals which risk information require attention. The results of the risks are summarized in the risk and opportunity report. We did not identify any risks resulting from our business activities, value chain, products or services that would affect sustainability aspects concerning employees, environment, social concerns, anti-corruption and human rights.

The following non-financial report sets out the steps we have taken so far to meet corporate responsibility requirements. Since this is our inaugural report we have not previously set-up the data collection systems to use an official reporting framework.

This chapter includes our non-financial report for Westwing Group AG in accordance with Section 315b and 315c and in conjunction with Section 289b and 289c of the German Commercial Code (HGB). We oriented our report at the German Sustainability Code (DNK). The non-financial report is divided into the sections:

MATERIAL TOPICS OF ACTIVITY

CUSTOMER RELATIONSHIP AND DATA PROTECTION

ANTI-BRIBERY AND ANTI-CORRUPTION

ENVIRONMENTAL AND CLIMATE PROTECTION

HUMAN RIGHTS IN OUR SUPPLY CHAIN

EMPLOYEES AND DIVERSITY

Concerning the definition of our business model we refer to section 1.1 of this combined management report.

Employees and Diversity

The Westwing Group considers international diversity to be an important competitive factor. We believe that our diverse, smart and friendly atmosphere is the secret to our success.

This international character is expressed in the diverse backgrounds of our employees. Westwing unites individuals from more than 50 nationalities, with great passion, integrity, creativity, joy and energy to achieve extraordinary results and build a company of true longevity. Constantly growing, we strive for excellence and aspire to create the European leader in Home and Living eCommerce. Likewise, Westwing sees gender diversity as an important factor, 61 % of employees of Westwing Group are female.

EMPLOYEES BY GENDER AND SEGMENT

	DACH	International	Group
Total	**665**	**553**	**1,218**
Female*	406	334	740
Male*	259	219	478

* Headcount as of December 31, 2018

This dynamic environment offers our more than 1,200 employees great opportunities to develop.

We know that for the fulfilment of our vision and the achievement of our objectives, we are dependent on the knowledge, experience and motivation of all our employees. Without their enthusiasm, diversity, ambition and contribution Westwing would not be able to grow and expand. Westwing therefore focuses on investing in the current workforce and extending the workforce as required. We support personal and professional growth by building a strong feedback culture that enables development and learning opportunities on a daily basis.

We have created and want to sustain an open and honest atmosphere in which each employee feels encouraged to proactively state their opinions and suggestions – irrespective of age or position in the Company.

Hence, in addition to regular bi-annual performance feedbacks, we have established the following institutions not only to keep employees informed about current developments in the Company but also to gauge their current mood about their tasks and working conditions, for which our HR department is responsible:

- Allhands Meetings: Update on all important topics by the management on a regular basis as well as a Q&A-Session at the end.

- Insights Sessions: Presentations by our leaders to give diverse Westwing business insights and discussions.

- Team Pulse Checks: Bi-annual request to gather employee anonymous feedback about Westwing, team, what is good or what needs to be improved. This provides the opportunity to tell HR and management openly how everybody feels and what is good and not so great, so we can learn about it and work on it.

- Upward Feedback Process: Upward Feedback provides an anonymous and confidential way for employees to provide feedback to their immediate supervisors to enhance the supervisor's ability to lead their teams more effectively. It is administered twice a year via an external service provider, to ensure anonymity.

- 1on1s: Regular meetings of every employee and their supervisor on a weekly or bi-weekly basis to give the opportunity to openly talk about pressing issues, give feedback, to develop a strong relationship, and to ensure that one is on track working towards one's goals.

Furthermore, we are always open to support trainings and further educational projects of our employees.

We also recognize our responsibility as an employer to protect the health of everybody at Westwing and to provide a working environment that cares about the current and future needs of our employees' work-life balance. Attracting talent is essential for our success and growth strategy. Thus, we want to design an attractive and innovative work environment together with our team.

We offer a safe and healthy work environment to our employees. Therefore, we aim to completely prevent accidents and minimize the risk of occupational illnesses. We have established clear and reliable structures within Westwing offering suitable solutions for the corresponding work environments.

To prevent accidents in our offices, there is a mandatory "safety in workplace" guideline, which any new employee has to read and sign, and for which the sign-off is regularly updated. We offer trainings for fire protection assistants and to provide first aid. Furthermore, we provide health-promoting activities to our employees on a regular and voluntary basis. In 2018, employees could participate in a variety of sports programs and consultations on ergonomics at the workplace.

In order to be an attractive employer, we are very flexible concerning working hours, part-time employments and job location solutions, such as the possibility of working from home.

As we do not manage all of our warehouses by ourselves, we checked to ensure that our warehouse service providers have set up adequate policies and guidelines concerning safety in the workplace. Furthermore, we regularly review fire safety requirements in all of our warehouses. For this review we created a checklist, which has to be filled out and signed by the warehouse manager. Our last review was performed in Q3 2018 and all of our warehouses passed the review.

Environmental and Climate Protection

Westwing has grown successfully in the past few years, leading to an increasing number of customers and a consequently increasing number of shipped packages, which is also causing a larger ecological footprint. Nevertheless, Westwing is aware of its responsibilities towards nature, the environment and climate protection. We therefore decided to establish new ways of delivery not only to save transportation costs but in particular to avoid long routes of transport and to reduce environmental pollution. We have set up six logistic centers around Europe, and we try to ship the ordered products from the logistic center located nearest to the customer.

Every day numerous orders are processed in our logistic centers, and with our growing business the number will increase even more. Consequently, we also expect the amount of packaging material to increase. Our packaging guidelines have been designed to define and implement a standard for Westwing's packages. Westwing stands for elegance, quality, variety of products and value. Therefore, every packaging decision is a negotiation between safety of the products, cost-efficiency and the customer experience when unpacking. Packages should leave the warehouse clean and undamaged without any exceptions and arrive at the customers in the same condition. To deliver Westwing's high quality-products in an impeccable condition, there must be enough cushioning material without overwhelming the customer with unnecessary waste. Packing and protection should not only be cost effective, but also aim to produce as little waste as possible.

A responsible and prudent use of natural resources is a prerequisite for our sustainable business operation. We therefore also expect our Own Label and Private Label business partners to define standards and implement procedures that enable a responsible use of resources. They shall provide a waste management as well as a disposal of hazardous substances management that guarantees a careful treatment of the environment. Furthermore, they have to particularly take into account human health and safety. All procedures should focus on the precautionary principle of low emissions and water conservation. Necessary permits, licenses and test reports must be obtained and kept up to date. This includes but is not limited to emissions to air, noise, water discharge, ground contamination and animal protection.

Human Rights in Our Supply Chain

Compliance with applicable laws and other legislation in each country in which we operate, the relevant industry minimum standards and the conventions of the International Labor Organization (ILO) form the base for our sustainability-oriented business.

As an internationally oriented company, we have to rely on the support and the cooperation of our business partners, since we not only aim to comply with the above-mentioned standards within the Westwing Group but also want our business partners to so.

To keep the risk of reputational damage, legal fines and potential sourcing interruptions as low as possible, we have set up our own Code of Conduct for Private Label suppliers, where we have our Westwing creations produced by third party suppliers. The principles of our Private Label Code of Conduct are based on the Conventions of the International Labor Organization (ILO), United Nations Global Compact Principles and OECD Guidelines for Multinational Enterprises. This code is the basis of Private Label for any collaboration with business partners, no matter in which area. It includes sections to avoid inhuman circumstances and child labor, among many others. We recognize that local laws in some of our business partners' countries may have lower standards than those set out in our Code of Conduct. In such cases, we expect our business partners to adapt to our standards. Otherwise we would end the collaboration and blacklist the supplier.

We expect our business partners to align their operations and activities with these principles. Furthermore, it is the responsibility of our business partners to disseminate and educate the principles of this code to their suppliers.

In addition, our partners are required to implement a control system with internal audits at least once a year and a minimum level of documentation for at least 24 months. The business partner has to agree to regular external audits which may take place unannounced.

So far, we managed to have 97 % of our Private Label suppliers sign our Code of Conduct. For 2019 we are planning to receive external audit reports from those suppliers that have been audited already and to perform external audits at further suppliers.

As mentioned above, we do not manage all our warehouses by ourselves, but we also have checked to ensure that our service providers have set up policies and guidance to meet the industry minimum standards.

Customer Relationship and Data Protection

With around 1 million Active Customers we have been able to establish a very loyal customer base with a steadily increasing share of wallet. This customer loyalty is one of the major drivers of our success, so we try to maintain and improve customer satisfaction by offering new services on our website, such as interior design support and "shop the look"; we request feedback from customers on transactions and we talk to them directly as part of customer service to learn how we can become even more attractive.

Another aspect concerning customer satisfaction is the quality of our products. Therefore, Westwing maintains close relationships with our suppliers to reduce any complications in our supply chain and ensure the best possible delivery quality. The staff in our warehouses also contributes to our delivery quality as they are trained to check the quality of each product. These quality checks are part of the inbound inventory process in each warehouse to avoid products of low quality being sent to customers.

As an online shop for Home and Living products we receive and handle a considerable amount of data day by day. In order to support our global business, it is essential that necessary information and data are provided throughout Westwing. The Company's international activities require us to comply with various legal regulations in different countries and regions. At the same time, adequate protection must be accorded to our business partners and our employees. To handle all these requirements, we have set up an IT Security Policy defining all aspects of information technology in use; it covers not only IT Systems, but also facilities and processes concerning relevant IT systems. Our Legal department together with our IT department is responsible to set up the rules and take care of any issues the concerning data protection and IT security.

We have established rules to protect data handled at Westwing and prevent unauthorized usage of personal, confidential or sensitive information in possession of Westwing or our employees. Complying with this policy is a requirement for the access and exchange of information within Westwing. Furthermore, Westwing has implemented appropriate technical and organizational measures to ensure the necessary data security.

The purpose of this policy is to secure and protect the information owned by Westwing. The Company provides and uses special software, networks, other electronic information systems and data to meet its mission, goals, and initiatives. Westwing grants access to its resources as a privilege and as such has to manage its responsibility to maintain confidentiality, integrity, and availability of all information assets. This responsibility can only be met, if all users are fully aware of how to work securely given the data and the risks that are involved.

In conclusion, our IT Policy among other things establishes rules for all users of Westwing IT resources for handling any security incidents as well as personal, business, internal or sensitive data ensuring the security of Westwing's network.

Anti-bribery and Anti-corruption Initiatives at Westwing

In 2014 Westwing implemented its anti-corruption policy. This policy outlines acceptable and non-acceptable behavior to avoid violations of anti-corruption laws. This behavior includes compliance with all laws, domestic and foreign, and the prohibition of improper payments, gifts or inducements of any kind to or as received from any person. Westwing follows a zero-tolerance policy for bribery. The policy applies to all Westwing employees and third parties Westwing engages. Furthermore, all subsidiaries were required to implement an equivalent policy as well.

The policy provides guidance on what can be accepted by an employee and when a gift constitutes bribery. If support is required, employees can ask their supervisor, the Compliance Officer or the Legal department.

Westwing has implemented a whistleblower email address, where employees can report if they detect something is not working correctly. In the past years, no suspicious events were reported. In addition, it is part of our overall risk management system to detect any violations.

6. SUBSEQUENT EVENTS

There were no subsequent events after the end of the 2018 fiscal year, that have a significant impact on Westwing's future results of operations, financial position and net assets.

7. RISK AND OPPORTUNITY REPORT

Westwing recognizes that risk management is an integral part of doing business and thus carefully weighs risks and opportunities, thereby actively making tradeoffs.

The Company fosters a risk-conscious corporate culture in all decision-making processes. We carefully weigh the opportunities and risks associated with our decisions and our business activities, from a well-informed perspective. This involves proactively taking and accepting calculated risks. 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.

7.1 Risk Management System

Westwing is committed to managing all risk in a proactive and effective manner. This requires a customized risk management system to communicate management decisions to all levels within the organization. To support this commitment, risk management is integrated into all business processes at appropriate level. Risk management at Westwing covers not only risks but also opportunities.

The Management Board of Westwing Group AG has overall responsibility for the ongoing monitoring and analysis of all known risks. Risk controlling is an integral part of management's approach to achieving its strategic objectives and contributing to the long-term growth of the business. Each head of department is responsible to identify and monitor all risks in their area and ensure that appropriate precautions are taken to minimize any potential adverse impact.

At regular intervals, management discusses all relevant risks and analyzes them according to their probability of occurrence and potential magnitude. For the most significant risks, management agrees whether any additional steps need to be taken to reduce the probability of adverse risk occurrence and any potential impact on the Company. The Management Board reports on their overall risk situation and those risks are then reported to the Supervisory Board.

All identified risks and opportunities are reviewed on a regular basis to determine whether they are still valid and correctly assessed. Afterwards the documentation is updated and aggregated in a risk control matrix.

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

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

Within the course of preparing the initial public offering, Westwing enhanced its risk management and is currently in the process to establish an internal audit function that will test the risk and control environment from 2019 onwards.

7.2 Countermeasures and Internal Controls

Westwing monitors risks on permanent basis and performs a full review of risks and opportunities annually to determine whether the risks are still appropriate and complete. For each risk a countermeasure, control and responsibility are assigned with the effectiveness of each assessed by responsible department.

7.2.1 SYSTEM OF INTERNAL FINANCIAL REPORTING CONTROLS

As a part of its internal control system, Westwing has implemented internal controls over financial reporting. These consist of preventive, detective and monitoring control measures in accounting as well as in group accounting (consolidation process) and operational functions that insure consistent process preparation of financial statements and consolidated financial statements.

The control mechanisms include identifying and defining processes, introducing layers of approval and applying the principle of segregation of duties in order to have an efficient and effective control system in place. Processes and internal controls are regularly reviewed by the group accounting department.

7.2.2 RISK REPORTING AND METHODOLOGY

The risks identified by Westwing are quantified based on their likelihood of occurrence as well as their potential impact and entered in the risk register (risk control matrix). The probability assessment is based on a time horizon of one year after the assessment date. In order to fully understand and highlight the effectiveness of the mitigation measures all risks are assessed on a gross risk basis (before mitigation measures are in place).

The likelihood of occurrence refers to the statistical or estimated probability of a risk issue occurring during the time horizon under review. It is stated as a percentage. The likelihood of the occurrence is determined by choosing one of the given probability ranges which are shown in the table:

Likelihood	Assessment
Probable	(75 % – 100 %)
Likely	(50 % – 74.9 %)
Possible	(25 % – 49.9 %)
Unlikely	(5 % – 24.9 %)
Rare	(0 % – 4.9 %)

The quantitative risk classes are based on a scale relating to the potential Adjusted EBITDA impact and are adjusted continuously considering Westwing's risk-bearing ability. The qualitative risk classes are based on criteria considering reputational damage or the impact effects of criminal prosecution with special focus on compliance-relevant risks.

	Quantitative assessment (preferred)	
Effect	Financial effect	
5	**> MEUR 15.0**	**Severe damaging** negative effect on business operations, financial status, profitability and cash flows
4	**> MEUR 5.0**	**Substantial** negative effect on business operations, financial status, profitability and cash flows
3	**> MEUR 2.5**	**Some** negative effect on business operations, financial status, profitability and cash flows
2	**> TEUR 250**	**Limited** negative effect on business operations, financial status, profitability and cash flows
1	**< TEUR 250**	**Insignificant** negative effect on business operations, financial status, profitability and cash flows

Based on the assessment of the likelihood of occurrence and the impact, all identified risks are classified and visualized in the following risk matrix:

Likelihood	Very low (0 % – 4.9 %)	Low (5 % – 24.9 %)	Medium (25 % – 49.9 %)	High (50 % – 74.9 %)	Very high (75 % – 100 %)
Impact					
5	MODERATE	HIGH	HIGH	VERY HIGH	VERY HIGH
4	LOW	MODERATE	HIGH	HIGH	VERY HIGH
3	LOW	MODERATE	MODERATE	HIGH	HIGH
2	VERY LOW	LOW	MODERATE	MODERATE	HIGH
1	VERY LOW	VERY LOW	LOW	LOW	MODERATE

The risk matrix facilitates the comparison of the risks' relative priority and increases transparency over Westwing's total risk exposure. In addition, the categorization of risks from "very low" to "very high" is used to determine which risk information needs to be provided in more detail to the Management Board as well as to the Supervisory Board. Risks that could impact the ability of the Company to continue as going concern are reported immediately once identified.

Due to the fact that after the IPO the risk management department currently is about to be further enhanced, a risk assessment as described above is planned but not yet done, Westwing aims to supplement these disclosures in the next reports.

7.3 Risk Report

As in any company, Westwing faces risks that could threaten its success as a company. These risks can be split into financial risks, strategic and operational risks and technology risks. The current key risks Westwing was exposed to in 2018 are discussed in this section. They were not quantified, as in Westwing's view such discretionary figures do not provide an added value to a qualitative assessment. However, management recognizes that risks can change and therefore that there may be other risks currently deemed insignificant, or yet unknown risks that might have a negative impact on the business in the future.

7.3.1 ECONOMIC AND SECTOR RISKS

Our growth and the margins we can achieve depend in part on global and regional economic conditions in the markets in which we operate and their impact on consumer spending, which is likely to decline during periods of economic uncertainty and recession. Given that large furniture items, which are part of our product offering, require our customers to make higher investments compared to purchases in other retail markets such as consumer electronics, traditional toys and games, consumer appliances and apparel, consumers may be even more reluctant to make such investments in periods of economic downturns. We also offer a large number of smaller furniture items, textiles and accessories, the purchase of which is largely discretionary in nature. Our customers could decide to no longer purchase such products during economically challenging times. As a result, our industry may be more adversely affected by such developments than other industries. In addition, beyond typical seasonal patterns, our revenue can also be impacted by other factors that have an impact on consumer spending, such as weather conditions. Sunny and warm weather typically leads to lower orders, as our consumers spend their time outside and not in front of their computers or mobile devices browsing our offers. For example, the extremely warm and sunny weather in Europe in summer/autumn 2018, which led to reduced consumer spending, had an adverse impact on our growth.

Adverse economic developments and economic uncertainty may stem from a number of factors such as uncertainty about the future development of interest and currency exchange rates, the United Kingdom's initiated exit procedure from the European Union, the recent rise of populist parties and candidates, the implementation of trade tariffs, terrorist activities in Europe as well as around the globe and political tensions. Even countries with currently stable economies, including Germany, could experience downturns in the future. A decline in consumer spending and purchasing power could lead to customers ordering less, or selecting only cheaper products, or not ordering online at all.

Any deterioration of economic conditions could have a material adverse effect on our business, financial condition, cash flows, results of operations and prospects.

7.3.2 FINANCIAL RISKS

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

On October 9, 2018, Westwing Group went public at Frankfurt Stock Exchange (IPO) with a public offering consisting of a capital increase of 4.4m shares placed at EUR 26.00. Additionally, a Greenshoe option was partially exercised (0.3m shares). Gross proceeds amounted up to EUR 122.5m.

Proceeds from public offering will also be used for repayment of debt.

Despite having significant cash amounts in bank accounts the Company continues to use detailed, monthly rolling cash forecasts comparing expected in- and outflows by country in order to manage the cash reserves carefully.

Management believes that at the point of approving the consolidated financial statements for the year that ended on December 31, 2018, the Company had sufficient cash to meet all of its obligations.

Currency Risk
Another financial risk most companies face is currency risk. While the majority of the Company's transactions are in euros, Westwing operates outside the EU market and is accustomed to currency risk from various currencies. In addition, Westwing entities source globally, including from Asian and US suppliers that mainly invoice in US dollars.

In the second half of the 2018 fiscal year both subsidiaries in Russia and Brazil were fully disposed. There are only several countries such as Switzerland, Poland, Slovakia and the Czech Republic that do operate not in euros. Due to the volume of transactions and low currency fluctuation Westwing evaluates this risk as low.

With the growing share of Own Label and Private Label the revenue with global suppliers including Asia and US increased. Westwing does not actively hedge this risk. In the fiscal year 2018 trading volumes in US dollar amounted USD 9.6m. However, when sourcing costs and purchase prices rise for our Own and Private Label products, we will adjust our selling prices as well in a timely manner, thus allowing the impact to be reduced to a minimum.

The following table demonstrates the sensitivity of profit and loss as well as equity to a reasonably possible change in US dollar average exchange rates with all other variables held constant (again, practically fluctuations in currency would be passed on to customers; thus actual impact would be much less):

EUR m	2018
US Dollar strengthening / (weakening) by 10 %	– 0.8 / + 0.8

The translation risk resulting from consolidation of foreign currencies into the financial statements is currently not hedged by Westwing but was mostly reduced due to the disposal of both subsidiaries in Russia and Brazil accounting for most currency fluctuations. Management does not consider this risk to be material.

7.3.3 STRATEGIC AND OPERATIONAL RISKS

Competition
In the future, new companies could enter the Home and Living market with the intention of attracting the same customers as Westwing or following 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 seven years the Company has been able to create significant assets: Westwing is THE loved lifestyle brand for Home and Living eCommerce based

on its own assessment. Compared to a new entrant, Westwing has access to a large supplier base, many of whom are tied to and integrated process-wise with Westwing. Furthermore, it has around 1 million Active Customers, an already established and efficient logistics and supply chain, highly experienced and well-trained staff and customized IT architecture. All these factors represent barriers of entry for new companies.

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

Lack of Customer Loyalty
One of the major drivers of Westwing's success is the loyalty of its customers. Reasons for lack of loyalty can be Westwing specific (e.g., bad customer experience) or driven by external factors such as changes in available disposable income or other changes in general spending preferences.

The Company offers new products on its website, inspires customers with magazine articles, requests feedback from customers on transactions and speaks with customers directly as part of customer service. We do 85 % of our sales with customers who visit us on average 100 times a year. Moreover, this year 81 % of all orders were made from repeat customers. In addition, our rating on "Trustpilot" for our German operations in 2018 was 9.4 out of 10 points based on nearly 12,000 reviews. These KPIs show a very high level of customer loyalty to the Westwing brand.

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

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

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

Marketing
We have had and will continue to have substantial marketing expenses. We had historically focused on paid marketing channels to build our brand and gain relevant size and scale. We then shifted our marketing efforts in the DACH segment primarily towards organic marketing channels such as Instagram or Facebook and focused on our mobile and social media activities. The trend from paid to organic marketing is also followed by the International segment, but it may take some years until we see the same results there. However, there can be no assurance that our organic marketing channels will work in our less established markets, including most of the markets in the International segment or markets into which we may expand in the future.

We cannot guarantee that our current marketing channels will continue to be effective, permissible and generally available to us in the future. Our online partners might be unable to deliver the anticipated number of customer visits, or visitors that are attracted to our websites by such campaigns might not make the anticipated purchases. New regulation may adversely affect certain marketing channels and the ways in which we may use data collected in the past, in particular regulation aimed at controlling and censoring social media and increasingly stringent and complex data protection regulation. If we are unable to attract sufficient traffic to our websites, translate a sufficient number of website visits into purchasers with sufficiently large order values, build and maintain a loyal customer base, increase the purchase frequency of these customers, or do any of the foregoing on a cost effective basis, this could adversely affect our business.

A material number of our customers access our websites and apps by clicking on a link contained in organic search results generated by search engines such as Google. We endeavor to increase such relevant traffic by increasing the ranking of our websites and apps in organic searches, a process known as search engine optimization. However, the algorithms and ranking criteria of such search engines are confidential. Consequently, we do not have complete information on such algorithms and ranking criteria, making our efforts at search engine optimization considerably more difficult. Furthermore, search engines frequently modify their algorithms and ranking criteria to prevent their organic search results from being manipulated, which could impair our search engine optimization efforts. If we are unable to quickly recognize and adapt our techniques to such modifications in search engine algorithms or if our search engine optimization efforts prove otherwise ineffective, we may need to increase our spending on other forms of marketing or may potentially suffer a significant decrease in traffic to our websites and apps.

In addition, search engines may consider our search engine optimization efforts manipulative or deceptive and therefore see them as a violation of their terms of services. This may result in our websites and apps being excluded from organic search results. The same may occur if search engines modify their terms of service to prohibit our search engine optimization efforts. Any exclusion of our websites and apps from organic search results could significantly reduce our ability to attract relevant traffic to our websites and materially adversely affect our business.

Intellectual Property

As we utilize a variety of intellectual property for our business, customers, regulatory authorities or other third parties may allege that intellectual property we use infringes on their intellectual property, and we may therefore become subject to allegations and litigation. Even unfounded allegations of infringement may adversely affect our reputation and business and may require significant resources to defend against. If we try to obtain licenses from such third parties to settle any disputes, there is no guarantee that such licenses will be available to us on acceptable terms, or at all, in which case we may be required to alter our brands and change the way we operate.

In addition, we may not be able to continue to market certain products if our suppliers manufacture these products without regard for intellectual property rights of third parties. Furthermore, some of the agreements we entered into with third parties may contain clauses regarding the protection of their intellectual property licensed to us. A violation of these clauses, such as the unauthorized sub licensing or disclosure of a confidential source code, may require us to pay significant penalties, prevent us from utilizing such intellectual property in the future and may result in litigation against us.

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. This could especially effect delivery promises such as “delivery before Christmas.” If a promise like this is not fulfiled, customers could order at another company in the future which would have a negative impact on revenue and profit.

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

To improve logistic network in the fiscal year 2018 management took a decision to move to a new large and cost-efficient logistic center in Poznan, Poland. We expect the new warehouse to fully start operations in the first half of 2019.

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 its business. Key employees might leave the Company, which could have a negative impact on the Company's success.

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

To ensure Westwing's attractiveness as an employer, the Company has developed the necessary structures to give all employees an opportunity to fulfil their career goals, such as leadership development programs, in-house and external trainings. Evaluation rounds for all employees are performed on a regular basis. In addition, upward feedbacks and overall employee surveys are conducted by the Company to analyze and improve working conditions in the Company.

In order to raise awareness among potential employees of Westwing as a company and a good employer our HR department takes part in job fairs. In addition, the fact that Westwing now is a listed company has increased awareness and made it more attractive for potential employees.

7.3.4 IT RISKS

IT Infrastructure and Technological Advances
We have developed proprietary software to facilitate our business operations, data gathering analysis and online marketing capabilities and have invested significant capital and man hours into building and updating our IT platform and IT infrastructure. In order to remain competitive, we expect to continue to make significant investments in our IT. However, there is no guarantee that the resources we have invested in or will invest in in the future will allow us to develop suitable IT solutions and maintain and expand our IT platform and IT infrastructure as intended, which may adversely affect our ability to compete or require us to purchase expensive software solutions from third party developers.

Our success depends on our websites and apps being accessible to potential and existing customers at all times. It may become increasingly difficult to maintain and improve the availability of our websites and apps, especially during peak usage times and as our product offering becomes more complex and the number of visitors increases. We have experienced disruptions in the past (e.g., temporary downtimes of our websites) and may experience disruptions, outages or other issues in the future. If we fail to effectively address capacity constraints, respond adequately to disruptions or upgrade our IT infrastructure our mobile apps or websites could become unavailable or fail to load quickly and customers may decide to shop elsewhere, and may not return, which would adversely affect our business.

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

Because of these checks and back-up solutions, the website was online and functional with an average Company-wide uptime of more than 99.9 % during the 2018 fiscal year.

Given that the internet and mobile devices are characterized by rapid technological advances, our future success will depend on our ability to adapt our websites, apps and other parts of our IT platform to such advances (e.g., advances in the field of machine learning, artificial intelligence, augmented reality and potentially virtual reality) and to sustain their interoperability with relevant operating systems. In particular, purchases from mobile devices have increased rapidly since we introduced our apps. However, the variety of technical and other configurations across mobile devices and platforms makes it more difficult to develop websites and apps that are suitable for multiple channels. Any failure to adapt to technological advances in a timely manner and to integrate our offerings through our websites and apps could decrease the attractiveness of our apps and websites and adversely affect our business.

In addition, risks could occur when the system we use for enterprise resource planning does not perform as expected.

Data Security

We operate websites, apps and other IT systems through which we collect, maintain, transmit and store sensitive information about our customers, suppliers and other third parties as well as proprietary information and business secrets. We also employ third-party service providers that store, process and transmit such information on our behalf, in particular payment details. Furthermore, we rely on encryption and authentication technology licensed from third parties to securely transmit sensitive and confidential information. While we take steps to protect the security, integrity and confidentiality of sensitive and confidential information, our security practices may be insufficient, and third parties may access our IT systems without authorization, which may result in unauthorized use or disclosure of such information. Such attacks might lead to blackmailing attempts, forcing us to pay substantial amounts to release our captured data or resulting in the unauthorized release of such data. Given that techniques used in these attacks change frequently and often are not recognized until launched against a target, it may be impossible to properly secure our IT systems. In addition, technical advances or a continued expansion and increased complexity of our IT platform could increase the likelihood of security breaches.

Security breaches may also occur as a result of non-technical issues, including intentional or inadvertent breaches or mistakes by our employees or third party service providers. Insufficient security practices, such as inadequate policies to enforce password complexity, the use of unauthorized and unprotected software as well as inadequate physical protection against unauthorized access may make our IT systems vulnerable and lead to unauthorized disclosure of sensitive information.

Any leakage of sensitive information could lead to a misuse of data. Inefficient management of administrator and user accounts may increase the risk of fraud and malfunctions. In addition, any such breach could violate applicable privacy, data security and other laws, and cause significant legal and financial risks, negative publicity and adversely affect our business and reputation. Moreover, we may need to devote significant resources to protect ourselves against security breaches or to address such breaches. Furthermore, we provide certain information to third party service providers who help us assess the performance of our business. Consequently, we only have limited control over the protection of such information by the relevant third party service providers and may be adversely affected by breaches and disruptions of their respective IT systems.

7.3.5 LEGAL AND TAX RISKS

Legal and Regulatory Requirements

At the moment we have continuing operations in eleven countries in Europe. As a result, our business is already subject to numerous laws in different countries, including laws applicable to the eCommerce sector such as laws regarding privacy, data protection and data security, and online content as well as telecommunications and laws applicable to public companies in general, in particular laws with respect to intellectual property protection, corporate, local employment, tax, finance, money laundering, online payment, consumer protection, product liability and the labelling of our products, competition, anti corruption and international sanctions. Operating in foreign jurisdictions entails an inherent risk of misinterpreting and wrongly implementing local laws and regulations. In addition, numerous laws and regulations apply to our products, and our ability to ensure that such products comply with all applicable regulations is limited.

While we are not aware of any material breaches of applicable laws and regulations, we cannot guarantee that we have always been in full compliance with them in the past and will be able to fully comply with them in the future. The violation of any of the laws and regulations applicable to us may result in litigation, damage claims from our customers, business partners and/or competitors as well as extensive investigations by governmental authorities and substantial fines being imposed on us. Even unfounded allegations of noncompliance may adversely affect our reputation and business.

Any changes in the legal framework applicable to our business could adversely affect our operations and profitability. If we continue to expand our business, we become subject to a legal framework that is even more complex. In the future, we may further expand our geographic footprint, including by entering into adjacent geographic markets. The laws and regulations of various jurisdictions in which we operate or may operate in the future are evolving. Consequently, such laws and regulations may change and sometimes even conflict with each other, making it even harder to comply with them.

At any time, authorities in the countries where we operate may require us to obtain additional or extend existing licenses, permits and approvals. However, there is no guarantee that we will be able to obtain these in a timely and cost effective manner. In addition, authorities may revoke existing licenses and we may not be aware of, or able to appeal, any such revocations in a timely manner, or at all.

To keep the risk of reputational damage, legal fines and potential sourcing interruptions as low as possible, we have set up our own Code of Conduct for Private Label suppliers, where we have our Westwing creations produced by third party suppliers. The principles of our Private Label Code of Conduct are based on the Conventions of the International Labor Organization (ILO), United Nations Global Compact Principles and OECD Guidelines for Multinational Enterprises. This code is the basis of Private Label for any collaboration with business partners, no matter in which area. It includes sections to avoid inhuman circumstances and child labor, among many others. We recognize that local laws in some of our business partners' countries may have lower standards than those set out in our Code of Conduct. In such cases, we expect our business partners to adapt to our standards. Otherwise we would end the collaboration and blacklist the supplier.

We expect our business partners to align their operations and activities with these principles. Furthermore, it is the responsibility of our business partners to disseminate and educate the principles of this code to their suppliers.

Tax Compliance

Our business is subject to the general tax environment in the jurisdictions in which we operate. Our ability to use tax loss carry-forwards and other favorable tax provisions depends on national tax laws and their interpretation in these countries. Changes in tax legislation, administrative practices or case law could increase our tax burden and such changes might even occur retroactively. Furthermore, tax laws may be interpreted differently by the competent tax authorities and courts, and their interpretation may change at any time, which could lead to an increase of our tax burden. In addition, court decisions are sometimes ignored by competent tax authorities or overruled by higher courts, which could lead to higher legal and tax advisory costs and create significant uncertainty.

Tax authorities in various jurisdictions are currently reviewing the appropriate treatment of eCommerce activities. Due to the global nature of our eCommerce business, various jurisdictions might attempt to levy additional sales, income or other taxes relating to our activities. Such new tax regulation may subject us or our customers to additional taxes, which would increase our tax burden and may reduce the attractiveness of our online offering. New taxes could also result in additional costs necessary to collect the data required to assess these taxes and to remit them to the relevant tax authorities.

In Germany, a tax audit of the Company is currently ongoing with respect to all periods up to and including the year that ended December 31, 2014. Taxes actually assessed as a result of this currently ongoing audit or in future tax audits for periods not yet covered by this ongoing tax audit may exceed the taxes already paid or accrued by us. As a result, we may be required to make significant additional tax payments with respect to previous periods. Furthermore, the competent tax authorities could revise their original tax assessments. Any tax assessments that deviate from our expectations could lead to an increase in our tax burden. In addition, we may be required to pay interest on these additional taxes as well as late filing penalties. Changes in the tax environment and future tax audits could have a material adverse effect on our business, financial condition, cash flows, results of operations and prospects.

7.3.6 OVERALL ASSESSMENT OF RISK BY THE MANAGEMENT BOARD

Management is satisfied that existence-threatening risks for the Company in 2018 did not exist. No single risk or bundle of risks is currently considered to threaten the Company as a going concern in the next year. Management believes that it has taken all necessary precautions to address existing risks and reduce their possible impact.

7.4 Opportunities

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

7.4.1 OVERALL EXTERNAL ECONOMIC OPPORTUNITIES

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

- Improved product offering: eCommerce is generally better positioned to offer its customers an attractive and varied product offering. Westwing is not bound by store size constraints when it comes to offering customers products and can therefore go far beyond the range compared to what a main-street shop could offer its customers.

- Round-the-clock availability of products: For many customers, the visit to a traditional main-street Home and Living (especially furniture) shop that meets their needs is very time consuming. More and more people therefore turn to online shopping. The increased simplification and reduced time required in the process of buying Home and Living products online increases the likelihood of an initial purchase by any given potential customer.

- Improved logistics and payment processes: Improvements in the quality of delivery services and payment options are crucial drivers of the positive development of eCommerce business. Having more options and choices in terms of when products are delivered and how the customer pays for them increases customer satisfaction and therefore increases chances of repeat business. While Westwing is already exceptionally well positioned in terms of delivery and payment options, this is another area to have been identified where further opportunities exist.

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

- Technology: The business environment is rapidly changing due to technology. Several years ago, mobile commerce was a big driver that started to shape the industry. By now, 73 % of our visits come from mobile devices (2018). Going forward, we see augmented reality as technology with potentially huge impact on the Home and Living market. Rather than going to the offline retailers, augmented reality enables customers to actually see the products they are interested in at the comfort of their home as they would appear. While not a short-term driver, we believe this will have a big impact on the Home and Living market going forward. We are well positioned in this with a state-of-the-art pilot already live in augmented reality.

- In 2018 Westwing sold both of its' subsidiaries in Brazil and Russia and now concentrates on the European market. Working in the European market gives significant synergy at sales and logistic processes. Europe is a territory with a high density and population wealth.

7.4.2 STRATEGIC AND OPERATIONAL OPPORTUNITIES

Own Label and Private Label

Besides offering products from its large supplier base, Westwing also offers an increasing number of products under Own Labels and Private Labels. Management believes that there is great potential in this area and is actively investing in this business to expand it further. The share of Own Label and Private Label GMV in the Q4 2018 already reached 18 %, which is 6 percentage points higher compared to Q4 2017 and proves the high potential of Own and Private Label business.

Private Label is currently set up in order to manage the entire purchasing process centrally and then sell the acquired products within the Company.

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

- Firstly, Westwing is able to tailor the design, packaging, price point, quality and branding of its products. Westwing is in direct contact with the manufacturers of the products and closely aligns product designs and materials used. This opportunity to directly influence the attributes of products sold enables Westwing to present a curated and well-rounded assortment on its website.

- Secondly, as there is no requirement for an intermediary, the margins Westwing can achieve on the sale of Private Label products are usually higher than for products from its other suppliers.

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

Brand

Westwing is THE loved lifestyle brand for Home and Living eCommerce. Management sees Westwing's strong brand and brand recognition as an important factor for long-term success. By focusing on PR, content creation, social media and applying carefully selected marketing initiatives, Westwing presents itself as a brand that values quality, style and inspiration and that transmits confidence, trust and personality to its customers. Unlike other industries such as fashion, where the customer focus is primarily on supplier brands, in the Home and Living industry the retailer brand is very important. This is driven by the fact that in Home and 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.

Management believes that Westwing as a strong retail company combined with its increased awareness of Westwing as a provider of Private Label products can create a very strong holistic Home and Living brand on the market.

Mobile eCommerce

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

Westwing is well equipped for this trend, as it has developed smartphone- and tablet-optimized web sites as well as dedicated (user friendly) apps for all popular mobile platforms. These devices have been so well-received by its customers that mobile visit share in 2018 increased by 3 percentage points and reached 73 %.

Next year Westwing will present new developments that should make mobile devices more attractive for mobile users of Westwing.

Margin Improvement

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

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

- Key supplier account management: Westwing will further improve the good arrangements and relationships with its suppliers so that operational processes are streamlined, and purchase conditions are improved.

- Product-mix and pricing: The correct product mix is important and Westwing constantly reviews its own, in order to improve customer inspiration and satisfaction, while maintaining attractive margins. Increasing the share of Own and Private Label products should also support margin improvement. Furthermore, intelligent pricing provides further opportunities.

- Logistics processes: Westwing operates six dedicated logistics centers and has already implemented its customized warehouse software in five of them. This shows that Westwing has made great progress in its logistics processes. In order to optimize and improve logistics network management took a decision to move to the new larger and more cost-efficient logistics center in Poznan, Poland. We expect the new warehouse to begin operating in the first half of 2019.

8. OUTLOOK

Our customers and their loyalty are the drivers of our success. In 2018 we were profitable on the level of Adjusted EBITDA for the Group for the full year and were growing our revenue at 15.6 % at a marketing ratio of 7.0 % of revenue. Our more mature and successful DACH segment provides a glimpse into the potential of our business: With 36 % of revenue growth at an Adjusted EBITDA margin of 4 % for 2018, it shows a clear path towards our strategic target of +10 % Adjusted EBITDA margin in the long term. Furthermore, our DACH segments provides us with a blueprint business model for replication into our international markets.

However, we also had challenges in 2018 that affected our performance. While unusually warm weather in summer and beyond were external factors, we also experienced significant challenges in our Italian business due to wrong positioning in the past.

We consider the macro-economic outlook as well as the underlying drivers in the market positive. We expect that also 2019 will also be a year where Home and Living eCommerce will grow at 10 % or slightly higher in our markets as eCommerce penetration increases. This will provide a strong foundation for continued above-market growth for Westwing.

In 2018 we also significantly strengthened our financial position with our Initial Public Offering. We ended the year with EUR 108.1m net cash, giving us the resources needed to drive our growth initiatives in the following years.

For 2019 we want to focus on the following key priorities:

- Profitable growth for the entire Group fueled by excellent customer loyalty
- Grow our DACH segment strongly and increase profitability here as the core of our business
- Further roll out our successful DACH business model internationally, including bringing our Italian operation back on track
- Increase share of Own Labels and Private Labels further towards the strategic long-term target of 50 % with expansion into new product categories, new product and collection launches, as well as intensified international expansion
- Strengthen our organic marketing activities further by investing into the team and increasing focus to international markets
- Relentlessly improve customer experience with inspiring content, gorgeous merchandise, exciting sites and apps, and further improving operations for excellent delivery experience

Based on strong customer loyalty and a highly efficient marketing model, we expect to continue our profitable growth in 2019. We expect revenue growth in 2019 similar to 2018 (i.e within a range of 2 – 3ppts of 16 %), and assume growth to come mostly in the second half of the year. Gross merchandise volume ('GMV') is expected to grow in line with revenue, while we aim to slightly continue to increase our share of wallet with our customers. On Adjusted EBITDA margin, we expect results for 2019 similar to 2018 level (i.e. within a range of 1pp of 1 %).

Additionally, we plan to maintain best-in-class cash efficiency. Given our ongoing investments, our free cash flow will be negative for 2019. We are convinced that Westwing has the necessary operational and financial resources to reach our ambitions for 2019.

9. SUPPLEMENTARY MANAGEMENT REPORT OF WESTWING GROUP AG (IN ACCORDANCE WITH THE GERMAN COMMERCIAL CODE – HGB)

The annual financial statements of Westwing Group AG have been prepared in accordance with the rules set out in the German Commercial Code (Handelsgesetzbuch). Westwing Group AG is the parent company of the Westwing Group, and is primarily acting as holding company of the various operational entities and does not generate revenues with third parties but generates income from Group internal services provided, which are shown as revenue. The income and expenses as holding will influence in the long-term the profitability of Westwing Group AG.

9.1 Results of Operations Westwing Group AG

EUR m	2018	2017
Revenue	**24.7**	**20.1**
Own work capitalized	5.6	3.7
Other operating income	11.8	0.5
Gross performance	**42.1**	**24.3**
Material expenses	– 7.5	– 5.9
Personnel expenses	– 21.2	– 20.5
Depreciation and amortization of property plant and equipment and intangible assets	– 2.0	– 4.0
Other operating expenses	– 14.9	– 4.7
Operating result	**– 3.5**	**– 10.8**
Interest income	2.4	8.2
Write-down on investments	– 39.3	– 43.2
Interest and other expenses	– 4.0	– 1.9
Financial result	**– 40.8**	**– 36.9**
Income tax	– 0.0	–
Result after tax	**– 44.3**	**– 47.7**

Revenues were up in line with overall business development by 22.5 % to EUR 24.7m. Own work capitalized increased by 53.9 % to EUR 5.6m. This development is primarily driven by higher investments in technology and an overall enlargement of the business. In the 2018 fiscal year a change from cash settled compensation plans to equity settled compensation plans took place at Westwing Group AG. As equity-settled plans are not recognized according to HGB in this case, this led to a release of accrued cash-settled plans in the amount of an income of EUR 4.6m. This was partially offset by expenses for share-based payments of EUR 3.4m related to expenses recognized for the buyback of shares of some of the participants of a new commitment package as well as a Management Board bonus for the successful IPO in the form of cash-settled options.

Overall, an operating loss (before interest, amortization/depreciation, write offs on financial assets and taxes) of EUR 1.5m was incurred in 2018, which improved by EUR 5.3m compared to a respective loss in 2017 of EUR 6.8m. Costs related to the initial public offering amounting to EUR 8.4m were partially compensated by an appreciation in value connected to the sale of the Russian and Brazilian entities.

The financial result of EUR – 40.8m (2017: EUR – 36.9m) comprises interest income on non-current financial assets of EUR 2.4m (2017: EUR 8.2m) as well as interest and other expenses of EUR 4.0m (2017: EUR 1.9m). The reduction of interest income is due to the fact that interest charged to affiliates was lowered in the fourth quarter of 2017. Interest and other expenses increased especially as a result of the GGC loans and warrant. They include expenses for group loans of EUR 0.7m (2017: EUR 0.6m).

In addition, various non-recurring transactions affected the result before tax. The key elements, however, were write-offs on loans and shares in subsidiaries. As a result of an impairment test two entities' loans needed to be written down (2017: four). Though overall it is expected that the future development of the Westwing Group and the operational entities will become profitable, management decided on a case by case base that partially long-term loans needed to be impaired by EUR 38.8m (2017: EUR 21.2m). In one case a debt waiver of EUR 1.5m was expensed in 2017.

Based on the decisions made by management and approved by the Advisory Board in May and June 2018 to divest the Russian and Brazilian operating companies, the related investments, receivables and loans were impaired fully for Russia and partially for Brazil in 2017. The decisions to divest resulted in an additional impairment charge for the financial statement of 2017 amounting to EUR 20.5m. Both operational companies were sold in Q4 2018. However, as these entities were sold in Q4 2018, an appreciation in value for the loans to the Russian and Brazilian holding entities was recognized amounting to EUR 6.6m as a result of the cash received from the sales, which is reconized in other operating income. However, the shares in the related holding entities were fully written off.

Personnel expenses increased and amounted to EUR 21.2m (2017: EUR 20.5). Savings in salaries were overcompensated by expenses relating to share-based compensation. The cost of purchased services were EUR 7.5m (2017: EUR 5.9m) and thus up compared to the prior year. This primarily resulted from the overall expansion of business. Westwing further pursued its investments in its team and technological infrastructure in 2018. Such investments constitute the basis for adaptable and sustainable business operations. An increase of EUR 1.0m was caused by higher investments in marketing. Overall, higher expenses correlate to the increase in revenue and own work capitalized.

9.2 Financial Position of Westwing Group AG

Westwing Group AG had cash and cash equivalents of EUR 92.5m as of December 31, 2018 (2017: EUR 2.2m). Cash equivalents developed as follows:

- There were multiple capital increases in 2018 (2017: none), leading to a cash-in of EUR 122.5m, which was nearly completely related to the successful initial public offering on October 9, 2018.
- Costs related to the IPO incurred of EUR 8.4m.
- In 2018, the Company financed the operations of its subsidiaries with loans (incl. Interest) in the amount of EUR 14.7m (2017: EUR 5.7m), which are deemed to be long-term in economic terms but are short-term in legal terms.
- In 2018, the Company accessed three tranches of the GGC loan totaling EUR 15.0m and EUR 10.0m with CITI. CITI loans were drawn and paid back in the year 2018.
- In addition, Westwing Group AG paid interest and other expenses of EUR 3.0m for loans. The remaining amount of Kreos loans and interest were fully paid back in Q3 2018 amounting to EUR 5.4m.
- New upstream loans with the Italian affiliate amounting to EUR 1.8m and the Spanish affiliate amounting to EUR 1.1m were drawn in Q1 2018.
- In Q4 2018, the Company partially paid back existing upstream loans from Italy (EUR 7.5m) and Spain (EUR 1.1m).
- Investments in tangible and intangible assets amounted to EUR 6.2m in the year under review (2017: EUR 4.7m).

- Options from eligible employees were bought back within a new management commitment package amounting to EUR 1.9m as well as shares acquired amounting to EUR 0.2m on the level of the Italian subsidiary.

- The remaining cash outflow of EUR 1.7m arose from the operations.

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

9.3 Total Assets of Westwing Group AG

EUR m	12/31/2018	12/31/2017
Assets		
Non-current assets		
Intangible assets	7.9	3.8
Property, plant and equipment	1.6	1.5
Financial assets	176.4	181.8
Total non-current assets	**185.9**	**187.1**
Current assets		
Trade and other receivables	6.5	4.3
Cash and cash equivalents	92.5	2.2
Total current assets	**99.1**	**6.5**
Prepaid expenses	0.6	0.3
Total assets	**285.6**	**193.9**
Equity / (deficit)		
Share capital	20.7	0.1
Share premium	349.4	234.8
Treasury shares	– 0.0	– 0.0
Accumulated losses	– 116.9	– 72.6
Total equity / (deficit)	**253.2**	**162.2**
Provisions	4.5	2.2
Liabilities	27.7	29.4
Deferred revenue	0.2	0.2
Total equity and liabilities	**285.6**	**193.9**

As of December 31, 2018, the balance sheet total amounted to EUR 285.6m and represented a higher level than in the prior year (2017: EUR 193.9m). This development is primarily driven by the successful initial public offering on October 9, 2018, and the related capital increase and cash inflow. The Company's assets consist primarily of financial assets as well as cash and cash equivalents.

Current assets amounted to EUR 99.1m (2017: EUR 6.5m) as of the end of 2018. The accounts receivable from affiliated companies increased to EUR 3.5m (2017: EUR 1.6m). Cash and cash equivalents were up significantly to EUR 92.5m (2017: EUR 2.2m) as a result from the remaining proceeds from the IPO.

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

In the 2018 fiscal year, the fixed tangible assets increased slightly to EUR 1.6m (2017: EUR 1.5m). Intangible assets consist of both purchased and internally developed software. In 2018, the net book value increased by EUR 4.1m to EUR 7.9m (2017: EUR 3.8m) due to the continuing investments into technology.

Investments into subsidiaries increased in 2018 by EUR 12.1m, primarily related to the roll-up of affiliate shares to Group shares resulting in a contribution in kind increasing the shares in affiliate companies. The loans provided to subsidiaries disclosed as long-term financial assets decreased by EUR 17.5m to EUR 161.0m. New loans and interests to affiliates of EUR 14.7m and a appreciation in value of long-term receivables of EUR 6.6m were offset by an impairment of loans to subsidiaries of EUR 38.8m. In addition, shares in the holding entities for Russia and Brazil were written of by EUR 0.5m.

Liabilities slightly decreased from EUR 29.4m in 2017 to EUR 27.7m in 2018. The development resulted from compensating effects: While liabilities against group companies were reduced by EUR 10.6m mainly due to upstream loans that were paid back to Spain and Italy, the other liabilities increased by EUR 7.5m primarily due to new loans drawn in 2018 with GGC. This was partially offset by the payback of loans with Kreos. Trade payables were up to EUR 1.7m (2017: EUR 0.2m)

As of the balance sheet date, the Company's equity increased by EUR 91.0m from EUR 162.2m in December 2017 to EUR 253.2m in December 2018, with the main driver being the capital increase from the IPO. The incurred loss of the year was EUR – 44.3m. The costs recognized for the IPO are included with EUR – 8.4m within the loss of the year.

At the end of 2018, the equity ratio increased from 83.7 % in the prior year to 88.7 %, which is a relatively high level.

9.4 Employees of Westwing Group AG

At the end of December 2018, Westwing Group AG employed 291 employees including interns, temporary staff and management (2017: 217). Most of the staff works in the areas of administration/IT and marketing. The software development is nearly completely done by tech employees of Westwing Group AG.

At Westwing Group AG, 51 % of employees at the end of 2018 were female, which is lower than at the total Group given high technology employee share at Westwing Group AG where we (like many other businesses) struggle a majority of female employees.

For information on the percentage of women and the corresponding targets and for disclosures regarding diversity on the Executive Board and the Supervisory Board, please refer to the corporate governance report.

9.5 Risk and Opportunities of Westwing Group AG

The risks and opportunities for Westwing Group AG are in substance the same as for the Group as a whole. Therefore, we refer to the risk and opportunity report under chapter 7 of this management report.

9.6 Outlook for the Westwing Group AG

The forecast for Westwing Group AG is substantially the same as for the Westwing Group as a whole relating to economic environment and expectations for the operating business. We refer to chapter 8.

For fiscal year 2019, Westwing Group AG expects a slightly increased revenue level compared to prior year reflecting the expected higher business volume of the operating subsidiaries, driven by its activities as a holding company for the Westwing Group. The result before tax and before impairments is expected to improve slightly due to a better expected operating result and lower interest expenses.

Especially due to the expenses recognized for the IPO, Westwing Group AG only nearly fulfiled the prior-year expectations and reached a result before tax and impairments that was 11 % lower than in the prior-year. The revenue increased by 23 % to EUR 24.7m, and thus exceeded the projected slight increase. The loss of the year was about EUR – 5.0m excluding impairment charges (2017: EUR – 4.5m excluding the impairment charges) and therefore was slightly higher than 2017. The increase in loss is primarily due to the expenses recognized related to the IPO, which was partially offset by the appreciation of value of loans to affiliates. In addition, lower income from interest was recognized, as interest rates were reduced significantly for loans to affiliates. In the same time the interest expense for third party loans were up as a result of loans taken out with GGC.

We are convinced that Westwing has the necessary operational and financial resources to reach our ambitions for 2019.

10. REMUNERATION REPORT AND OTHER DISCLOSURES

10.1 Remuneration of the Management Board

BASIC FEATURES OF THE REMUNERATION SYSTEM FOR THE MEMBERS OF THE MANAGEMENT BOARD

The Management Board's remuneration comprises a fixed base salary and a long-term incentive including share and option plans. The total remuneration is aligned to each board member's tasks and performance. The criteria used for the decision on remuneration is based on each management board member's responsibilities, personal target achievements and Westwing's economic situation as well as the expected Company development.

The Management Board's individual remuneration is not published.

NON-PERFORMANCE-RELATED COMPENSATION

All members of the Management Board receive a non-performance-related remuneration in form of monthly salaries, non-cash transactions and other services.

Salaries are paid to each board member as an installment at the end of each month. Westwing's Management Board members in total received cash salary payments of EUR 615k in the 2018 fiscal year (prior year: EUR 520k).

All Management Board members receive reimbursements for travel and other out-of-pocket expenses. Furthermore, they are entitled to receive a subsidy for health insurance.

For all board members an insurance policy for directors and officers (D&O insurance) was taken out, with adequate coverage according to the usual market practice and deductibles according to the corresponding regulations of the German Stock Corporation Act (Aktiengesetz). These insurances policies cover financial losses that may occur from Management Board members' breaches of duty during their terms of office.

PERFORMANCE-RELATED COMPENSATION (SHORT-TERM INCENTIVE)

In addition to the non-performance-related compensation, the Management Board as a whole is entitled to receive a variable bonus for the 2018 fiscal year of EUR 110k (prior year: EUR 120k), given that 100 % of the agreed targets were met. The targets consist of business development targets such as the achievement of planned growth and profitability.

In September 2018, the three members of the Management Board were provided with a bonus award. The bonus was subject to the occurrence of an IPO or another liquidity event or the achievement of certain performance targets. Provided that an IPO took place, the bonus for the three members of the Management Board depends on the volume-weighted average share price on the first 30 trading days before April 1, 2019, and is therefore classified as share-based compensation. Based on the share price as of December 31, 2018, the total payout would amount to EUR 1.2m. The final bonus amount will be calculated as agreed after March 31, 2019, and will be paid out in April 2019.

SHARE-BASED COMPENSATION (LONG-TERM INCENTIVES)

Since 2011 the Company and its subsidiaries operate share-based compensation schemes under which eligible employees and especially the Management Board have (i) been provided with the opportunity to invest in the Company's shares or in the shares of a subsidiary or (ii) been granted options for shares in the Company or options for shares in a subsidiary of the Company. All shares and options were rolled up from subsidiary to Westwing Group AG level in 2018.

As a basic principle, the share-based compensation awards have a vesting period of 36 or 48 months. The first tranche vests after twelve 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.

The table below provides an overview of the granted options during the reporting period:

	2018	2017
Options granted during the period	1,068,300	–
Weighted average exercise price	18.88	–
Weighted average fair value	34.86	–

EUR k	2018	2017
Employee benefits:		
Salaries (short-term employee benefits)	615	520
Bonus	110	120
Share-based compensation	4,207	1,588
Total	**4,932**	**2,228**

OTHER INFORMATION

During their employment, the Supervisory Board must approve the Management Board members' additional activities outside of Westwing in written form. Furthermore, all board contracts include restraints on competition that prohibit board members from working for a company that is a direct or indirect competitor of Westwing.

The Management Board contracts have terms until August 7, 2023.

An additional employment contract between Delia Fischer and the Westwing GmbH exists for PR services rendered. Remuneration from this was EUR 130k in the 2018 fiscal year (2017: EUR 90k).

10.2 Remuneration of the Supervisory Board

The remuneration for the members of the Supervisory Board is regulated by the articles of associations of Westwing Group AG.

The members of the Supervisory Board receive a fixed based compensation for each fiscal year of the Company in the amount of EUR 25k. The chairman of the Supervisory Board receives a fixed base compensation of EUR 40k, the deputy chairman of EUR 30k. The chairman of the Audit committee is compensated with an additional EUR 20k, and other members of the audit committee with EUR 10k.

The compensation is payable after the end of the respective fiscal year. Supervisory Board members holding office only during a part of the fiscal year receive a corresponding portion of the compensation.

In addition to the compensation paid on a fixed base, Westwing reimburses the members of the Supervisory Board for their reasonable out-of-pocket expenses incurred in the performance of their duties as Supervisory Board members as well as the value added tax on their compensation and out-of-pocket expenses.

In addition, Supervisory Board members are included in the D&O liability insurance for board members that will provide reasonable coverage against financial damages. The premiums for this insurance policy are paid by the Company.

According to the Articles of Association (Art. 9 (1)), the Supervisory Board has six members. It is not subject to employee co-determination. All members of the Supervisory Board are elected by the Annual General Meeting as shareholder representatives.

Details on the members of the Management Board and the Supervisory Board are provided in the notes to the financial statements of Westwing Group AG in accordance with Sec. 285 HGB.

In fiscal year 2018, the Supervisory Board had one committee: the Audit Committee. Additional committees may be established as required.

Westwing's Supervisory Board consisted of:

Name	Function(s) Remunerated
Christoph Barchewitz	Chairman of the Supervisory Board and the Audit Committee
Dr. Antonella Mei-Pochtler	Deputy Chairman of the Supervisory Board
Michael Hoffmann	Member of the Supervisory Board and the Chairman of the Audit Committee
Thomas Harding	Member of the Supervisory Board and the Audit Committee
Christian Strain	Member of the Supervisory Board
Oliver Samwer	Member of the Supervisory Board

10.3 Declaration on Corporate Governance

The declaration on corporate governance pursuant to Section 289f of the German Commercial Code (HGB) and Section 315d of the German Commercial Code (HGB) including the declaration of compliance according to Sec. 161 AktG is permanently and publicly available on the Company's website (https://ir.westwing.com/websites/westwing/English/5170/corporate-governance-report.html and https://ir.westwing.com/websites/westwing/English/5150/declaration-of-conformity.html) in the section Investor Relations – Corporate Governance. It is also included in the corporate governance report in this annual report.

10.4 Take-over Law

EXPLANATORY REPORT BY THE MANAGEMENT BOARD IN ACCORDANCE WITH SEC. 176 (1) SENTENCE 1 GERMAN STOCK CORPORATION ACT (AKTG) ON DISCLOSURES RELATING TO TAKE-OVER LAW IN ACCORDANCE WITH SEC. 289A (1) AND 315A (1) GERMAN COMMERCIAL CODE (HGB)

In accordance with Sec. 176 (1) sentence 1 German Stork Corporation Act ("AktG"), the Management Board of Westwing Group AG has prepared the following explanatory report on the disclosures relating to take-over law in accordance with Sec. 289a (1) and Sec. 315a (1) German Commercial Code ("HGB").

COMPOSITION OF SHARE CAPITAL (SEC. 289A (1) SENTENCE 1 NO. 1 HGB)

As of December 31, 2018, the paid-in share capital amounted to EUR 20,740,809. The share capital is divided into 20,740,809 no par value bearer shares representing a share of the share capital of EUR 1.00 each. The shares are fully paid in. Each share carries identical rights and obligations. Each share entitles the bearer to one vote.

RESTRICTIONS RELATING TO THE VOTING RIGHTS OR THE TRANSFER OF SHARES (SEC. 289A (1) SENTENCE 1 NO. 2 HGB)

As of December 31, 2018, the Company holds shares with a nominal value of EUR 22,800 as treasury shares from which no rights accrue to the Company pursuant to Sec. 71b AktG.

SHAREHOLDINGS THAT EXCEED 10 % OF THE VOTING RIGHTS (SEC. 289A (1) SENTENCE 1 NO. 3 HGB)

As of December 31, 2018, the following direct and indirect interests in the capital of Westwing Group AG exceeded the threshold of 10 % of voting rights:

- Rocket Internet SE, Berlin, Germany (indirectly via Jade 1317. GmbH; Bambino 53. V V GmbH)
- Kinnevik Internet Lux S.à r.l., Luxembourg, Duchy of Luxembourg

LEGAL REQUIREMENTS AND PROVISIONS OF THE ARTICLES OF ASSOCIATION RELATING TO THE APPOINTMENT AND REMOVAL OF MEMBERS OF THE MANAGEMENT BOARD AND TO AMENDMENTS TO THE ARTICLES OF ASSOCIATION (SEC. 289A (1) SENTENCE 1 NO. 6 HGB)

The Supervisory Board appoints the members of the Management Board on the basis of Sec. 84 and Sec. 85 AktG and Art. 7 (3) and (4) of the Company's Articles of Association for a term of office of no more than five years; members may be reappointed. Under Art. 7 (1) sentence 1 of the Company's Articles of Association, the Management Board comprises one or more persons; in all other respects the Supervisory Board determines the number of Management Board members (Art. 6 (1) sentence 1 of the Articles of Association).

In accordance with Sec. 179 (1) sentence 1 AktG, the General Meeting decides on amendments to the Articles of Association. Amendments to the Articles of Association are made in accordance with Sec. 179 and Sec. 133 AktG. Under Sec. 179 (1) sentence 2 AktG in conjunction with Art. 11 (4) of the Articles of Association, the Supervisory Board is authorized to decide on amendments and supplements to the Articles of Association that relate only to the version. In accordance with Art. 4 (3), (4), (5), (6) and (7) of the Articles of Association, the Supervisory Board is authorized in particular to amend and revise Article 4 of the Articles of Association (Share capital) subsequent to the use of approved or conditional capital.

AUTHORITY OF THE MANAGEMENT BOARD TO ISSUE OR REDEEM SHARES (SEC. 289A (1) SENTENCE 1 NO. 7 HGB)

REDEMPTION OF TREASURY SHARES

On September 21, 2018, the General Meeting adopted a resolution authorizing the Management Board, with the approval of the Supervisory Board, to acquire until September 20, 2023, the Company's own shares representing up to 10 % of the Company's capital on the date of the resolution, or if lower, on the date of exercising the authorization, provided that the principle of equal treatment (Sec. 53a AktG) is applied. Together with the Company's other treasury shares previously acquired and still held by the Company or which are attributable to the Company under Sec. 71a et seq. AktG, the shares acquired under this authorization may at no time exceed 10 % of the Company's share capital.

This authorization may be exercised on one or more occasions, wholly or in part, in pursuit of one or more purposes by the Company, but also by group companies or by third parties for account of the Company or group companies.

The acquisition of treasury shares is permitted for the following purposes, among others:

- Shares may be retired, and the Company's share capital may be reduced by the portion of the share capital attributable to the retired shares.

- Shares may be offered and transferred to persons who are or were employed by the Company or any of its affiliates, to board members of the Company or its affiliates or investment vehicles, to other holders of purchase rights arising in particular from call options (issued by the Company's legal predecessors) or to holders of virtual options which have been or will be issued by the Company, the legal predecessors of the Company or their subsidiaries.

- The shares may be offered for acquisition and transferred to the eligible persons to satisfy virtual stock rights.

- With the approval of the Supervisory Board, the shares may be offered and transferred to third parties in return for non-cash contributions, in particular in connection with business combinations or the acquisition of entities, operations, business units or equity investments.

- With the approval of the Supervisory Board, the shares can be issued in order to distribute a dividend in kind in context of which shares of the Company (also in part or subject to election) may be issued against contribution of dividend claims (scrip dividend).

- With the approval of the Supervisory Board, the shares may be sold to third parties in return for cash payment if the price for which the Company's shares are sold is not significantly lower than the market price of a share in the Company on the sale date.

- The shares may be used to fulfil obligations or rights to acquire shares in the Company arising from and in connection with convertible or warrant bonds or profit participation rights with convertible or option rights or obligations.

No use was made of this authorization in fiscal year 2018.

In addition, the Management Board was authorized until September 20, 2023, with the approval of the Supervisory Board, to acquire Westwing Group AG shares using specified derivatives. All share acquisitions involving the use of such derivatives are limited to shares representing no more than 5 % of the share capital existing on the date the resolution is adopted by the General Meeting; share acquisitions involving the use of derivatives are credited toward the 10 % limit for the authorization granted to acquire treasury shares described above. The term of any derivative must be chosen such that the share acquisition involving the exercise of the derivative takes place no later than September 20, 2023.

The Management Board was also authorized until September 20, 2023, with approval of the Supervisory Board, to exercise the call options for the acquisition of own shares under the existing agreements, in particular the so-called Angel Agreements and the Call Option Agreements, which were concluded between the Company or its current or former subsidiaries with current and/or former employees, organ members and/or (former) advisors (service providers) and/or supporters (or their respective investment vehicles) of the Company and/or its subsidiaries, and to acquire own shares up to a total amount of 10 % of the share capital of the Company at the time of the resolution. The treasury shares acquired and owned by the Company are to be credited against this 10 % limitation.

AUTHORIZED CAPITAL 2018/I

The Management Board is authorized to increase the share capital on one or more occasions until August 6, 2023, with the approval of the Supervisory Board, by a maximum amount of EUR 90,000 by issuing up to a total of 90,000 new no-par value bearer shares in return for cash and/or non-cash contributions (Authorized Capital 2018/I) and, with the approval of the Supervisory Board, under certain conditions and within predefined limits, to exclude the shareholders' subscription right. This authorized capital is listed in the commercial register as Authorized Capital 2018/I.

AUTHORIZED CAPITAL 2018/II

The Management Board is authorized to increase the share capital on one or more occasions until August 6, 2023, by a maximum amount of EUR 15,000 by issuing up to a total of 15,000 new no-par value bearer shares in return for cash and/or non-cash contributions (Authorized Capital 2018/II) and under certain conditions and within predefined limits, to exclude the shareholders' subscription right.

On September 3, 2018, the Management Board made partially use of the Authorized Capital 2018/II. After this partial utilization, the Authorized Capital 2018/VI amounts to EUR 3,088. This authorized capital is listed in the commercial register as Authorized Capital 2018/II.

AUTHORIZED CAPITAL 2018/III

The Management Board is authorized to increase the share capital on one or more occasions until August 6, 2023, with the approval of the Supervisory Board, by a maximum amount of EUR 67,500 by issuing up to a total of 67,500 new no-par value bearer shares in return for cash and/or non-cash contributions (Authorized Capital 2018/III) and, with the approval of the Supervisory Board, under certain conditions and within predefined limits, to exclude the shareholders' subscription right. This authorized capital is listed in the commercial register as Authorized Capital 2018/III.

AUTHORIZED CAPITAL 2018/IV

The Management Board is authorized to increase the share capital on one or more occasions until August 6, 2023, with the approval of the Supervisory Board, by a maximum amount of EUR 101,250 by issuing up to a total of 101,250 new no-par value bearer shares in return for cash and/or non-cash contributions (Authorized Capital 2018/IV) and, with the approval of the Supervisory Board, under certain conditions and within predefined limits, to exclude the shareholders' subscription right. This authorized capital is listed in the commercial register as Authorized Capital 2018/IV.

AUTHORIZED CAPITAL 2018/V

The Management Board is authorized to increase the share capital on one or more occasions until August 6, 2023, with the approval of the Supervisory Board, by a maximum amount of EUR 4,350,000 by issuing up to a total of 4,350,000 new no-par value bearer shares in return for cash and/or non-cash contributions (Authorized Capital 2018/V) and, with the approval of the Supervisory Board, under certain conditions and within predefined limits, to exclude the shareholders' subscription right. This authorized capital is listed in the commercial register as Authorized Capital 2018/V.

AUTHORIZED CAPITAL 2018/VI

The Management Board was authorized to increase the share capital on one or more occasions until September 20, 2023, with the approval of the Supervisory Board, by a maximum amount of EUR 3,159,212 by issuing up to a total of 3,159,212 new no-par value bearer shares in return for cash and/or non-cash contributions (Authorized Capital 2018/VI) and, with the approval of the Supervisory Board, under certain conditions and within predefined limits, to exclude the shareholders' subscription right.

On November 13, 2018, the Management Board, with approval of the Supervisory Board, made partially use of the Authorized Capital 2018/VI. After this partial utilization, the Authorized Capital 2018/VI amounts to EUR 2,847,853. This authorized capital is listed in the commercial register as Authorized Capital 2018/VI.

CONDITIONAL CAPITAL 2018/I

The Company's share capital was also conditionally increased by up to EUR 5,000,000 by issuing 5,000,000 no-par value bearer shares (Conditional Capital 2018/I).

The Conditional Capital 2018/I serves to grant shares when conversion or option rights are exercised or to fulfil conversion or option obligations to the holders or creditors of convertible bonds, warrant bonds, profit participation rights and/or participation bonds (or combinations of such instruments) (collectively, the "Bonds") issued under the authorization resolution adopted by the General Meeting on September 21, 2018.

The new shares are issued at the conversion or option price to be determined in accordance with the authorization resolution adopted by the General Meeting on September 21, 2018. The conditional capital increase will only be executed to the extent that bearers or creditors of Bonds issued or guaranteed by September 20, 2023, by the Company or a subordinate group company under the authorization resolution adopted by the General Meeting on September 21, 2018 exercise their conversion or option rights or to fulfil conversion or option obligations under such Bonds, or to the extent which the Company grants in lieu of payment of the due amount shares in the Company and to the extent that the conversion or option rights or obligations are not fulfiled by treasury shares, shares issued from authorized capital or by other consideration.

To date, no use has been made of this authorization to issue Bonds. This conditional capital is listed in the commercial register as Conditional Capital 2018/I.

SIGNIFICANT AGREEMENTS OF THE COMPANY CONTINGENT UPON A CHANGE OF CONTROL AS A RESULT OF A TAKE-OVER BID AND THE RESULTING CONSEQUENCES (SEC. 289A (1) SENTENCE 1 NO. 8 HGB)

The Company's significant agreements contingent upon a change of control relate on the one hand to agreements for the Company's credit facilities. In the event of a change of control, these agreements grant the lender the right to terminate the facility and demand early repayment. In addition, there are a number of rental and lease agreements entered into by subsidiaries of Westwing Group AG which, in the event of a change of control, assume a change of tenant and therefore require the approval of the landlord or lessor.

Munich, March 27, 2019

Stefan Smalla
Chief Executive Officer
Westwing Group AG

Delia Fischer
Chief Creative Officer
Westwing Group AG

Dr. Dr. Florian Drabeck
Chief Financial Officer
Westwing Group AG

03

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Financial Statements

Notes to the Consolidated Financial Statements

CONSOLIDATED INCOME STATEMENT

For the period from January 1 to December 31, 2018 and 2017

EUR m	Notes	2018	2017
Revenue	5	253.9	219.6
Cost of sales		– 145.5	– 127.3
Gross profit		**108.4**	**92.3**
Fulfilment expenses		– 54.2	– 46.7
Marketing expenses		– 17.8	– 13.9
General and administrative expenses		– 55.9	– 55.1
Other operating expenses	8	– 0.7	– 1.4
Other operating income	8	0.7	0.7
Operating result		**– 19.5**	**– 24.0**
Finance costs	10	– 8.4	– 8.9
Finance income	10	1.8	0.0
Other financial result	10	– 0.3	0.4
Financial result		**– 6.9**	**– 8.5**
Result before income tax		**– 26.4**	**– 32.5**
Income tax expense/income	27	0.4	– 0.2
Result for the year from continuing operations		**– 26.0**	**– 32.6**
Result for the year from discontinued operations	2.3	**23.6**	**1.1**
Result for the year		**– 2.3**	**– 31.5**
Thereof attributable to:			
Owners of the Company		– 2.3	– 29.2
Non-controlling interests		– 0.1	– 2.4
Result for the year		**– 2.3**	**– 31.5**
Average number of shares in circulation; undiluted (= diluted)	11	15,497,938	13,726,650
Earnings per share (in EUR) from continuing operations attributable to the owners of the Company; undiluted (= diluted)	11	– 1.77	– 2.20
Earnings per share (in EUR) from discontinued operations attributable to the owners of the Company; undiluted (= diluted)	11	1.62	0.07
Earnings per share (in EUR) from continuing and discontinued operations attributable to the owners of the Company; undiluted (= diluted)	11	**– 0.15**	**– 2.13**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the period January 1 to December 31, 2018 and 2017

EUR m	2018	2017
Result for the year	**– 2.3**	**– 31.5**
Other comprehensive income:		
Items that subsequently will be reclassified to the income statement:		
Exchange translation differences of foreign operations	0.4	0.4
Other comprehensive income for the year, net of tax	**0.4**	**0.4**
Attributable to:		
Owners of the Company	0.3	0.3
Non-controlling interests	0.1	0.1
Total comprehensive loss for the year	**– 2.0**	**– 31.1**
Attributable to:		
Owners of the Company	– 2.0	– 28.8
Non-controlling interests	0.0	– 2.3
Total comprehensive loss for the year	**– 2.0**	**– 31.1**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

EUR m	Notes	12/31/2018	12/31/2017
Assets			
Non-current assets			
Property, plant and equipment	12	21.9	6.1
Intangible assets	13	8.0	4.0
Trade and other receivables	14	2.9	3.7
Deferred tax assets	27	0.5	–
Total non-current assets		**33.3**	**13.8**
Current assets			
Inventories	15	22.6	21.7
Prepayments on inventories	15	2.5	2.4
Trade and other receivables	14	10.0	9.0
Other assets	16	6.1	2.1
Cash and cash equivalents	17	123.0	13.8
Total current assets		**164.2**	**48.9**
Total assets		**197.5**	**62.7**

EUR m	Notes	12/31/2018	12/31/2017
Equity/(deficit)			
Share capital	18	20.7	0.1
Capital reserves		349.1	210.3
Treasury shares	18	– 0.8	– 1.0
Other reserves	18	43.6	22.7
Retained earnings		– 305.2	– 269.3
Other comprehensive income (OCI) reserve	18	0.3	7.2
Equity/(deficit) attributable to the owners of the Company		**107.7**	**– 30.0**
Non-controlling interests		**– 2.7**	**– 35.8**
Total equity/(deficit)		**104.9**	**– 65.8**
Non-current liabilities			
Borrowings	20	14.9	4.4
Lease liabilities	22	15.8	0.0
Other financial liabilities	22	–	35.5
Other non-financial liabilities	22	1.5	15.7
Provisions	23	0.2	0.2
Total non-current liabilities		**32.4**	**55.9**
Current liabilities			
Borrowings	20	–	7.1
Lease liabilities		2.3	–
Trade payables and accruals	22	32.0	39.7
Contract liabilities	22	7.9	11.7
Refund liabilities	22	6.2	2.7
Other financial liabilities	22	0.7	1.6
Other non-financial liabilities	22	10.4	9.5
Provisions *	23	0.7	0.2
Total current liabilities		**60.2**	**72.6**
Total liabilities		**92.5**	**128.5**
Total equity and liabilities		**197.5**	**62.7**

* The line provisions as of December 31, 2017, was adjusted by EUR 2.7m and reclassified to the line refund liabilities due to the implementation of the new standard IFRS 15 'Revenue from contracts with customers'

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Attributable to the owners of the Company		
EUR m	Notes	Share capital	Capital reserves	Treasury shares
As of January 1, 2017		**0.1**	**210.3**	**–1.0**
Result for the year		–	–	–
Other comprehensive income for the year		–	–	–
Total comprehensive loss for the year		**–**	**–**	**–**
Share-based compensation	19	–	–	–
Acquisitions/disposals of non-controlling interest/other		–	–	–
As of December 31, 2017		**0.1**	**210.3**	**–1.0**
Cumulative effect of initially applying IFRS 15		–	–	–
As of January 1, 2018		**0.1**	**210.3**	**–1.0**
Result for the year		–	–	–
Other comprehensive income for the year		–	–	–
Total comprehensive loss for the year		–	–	–
Issue of share capital	18	20.6	138.8	0.0
Share-based compensation	19	–	–0.1	0.2
Change of non-controlling interests	18	–	–	–
As of December 31, 2018		**20.7**	**349.1**	**–0.8**

Attributable to the owners of the Company					
Other reserves	Retained earnings	Other comprehensive income (OCI) reserve	Total	Non-controlling interests	Total equity
17.8	**– 240.8**	**6.8**	**– 6.7**	**– 33.0**	**– 39.7**
–	– 29.2	–	– 29.2	– 2.4	– 31.5
–	–	0.3	0.3	0.1	0.4
–	**– 29.2**	**0.3**	**– 28.8**	**– 2.3**	**– 31.1**
4.7	–	–	4.7	0.2	4.9
0.3	0.7	–	0.9	– 0.7	0.2
22.7	**– 269.3**	**7.2**	**– 30.0**	**– 35.8**	**– 65.8**
–	– 0.2	–	– 0.2	–	– 0.2
22.7	**– 269.5**	**7.2**	**– 30.2**	**– 35.8**	**– 66.0**
–	– 2.3	–	– 2.3	– 0.1	– 2.3
–	–	0.3	0.3	0.1	0.4
–	**– 2.3**	**0.3**	**– 2.0**	**– 0.0**	**– 2.0**
–	–	–	159.5	–	159.5
20.9	–	–	21.0	– 0.6	20.4
0.0	– 33.5	– 7.2	– 40.6	33.7	– 7.0
43.6	**– 305.2**	**0.3**	**107.7**	**– 2.7**	**104.9**

CONSOLIDATED STATEMENT OF CASH FLOWS

EUR m	Notes	2018	2017
Cash flows from operating activities:			
Result before income tax		– 26.4	– 32.5
Adjustments for:			
Depreciation and impairment of property, plant and equipment	12	5.6	1.6
Amortization and impairment of intangible assets	13	1.6	3.5
Loss/(gain) on disposal of property, plant and equipment		0.0	0.2
Share-based compensation expenses	19	8.4	10.8
Fair value (gain)/loss on financial liabilities		– 1.8	0.5
Finance income	10	–	– 0.0
Finance costs	10	8.4	8.3
Foreign currency effects		– 0.3	– 0.4
Other non-cash related adjustments		1.3	1.8
Changes in provisions and pensions		4.3	1.2
Cash effective operating loss before changes in working capital		**1.1**	**– 4.9**
Adjustments for changes in working capital:			
Changes in trade and other receivables and prepayments		– 7.0	– 1.6
Changes in inventories		– 5.3	– 7.5
Changes in trade and other payables		1.8	5.9
Cash used in operations		**– 9.5**	**– 7.9**
Tax paid		– 0.4	– 0.2
Net cash flows used in operating activities (continuing operations)		**– 9.9**	**– 8.2**
Net cash flows used in operating activities (discontinued operations)		**2.3**	**0.4**
Net cash flows used in operating activities		**– 7.6**	**– 7.8**
Investing Activities:			
Proceeds from sale of property, plant and equipment		0.2	0.0
Rent deposits		–	0.2
Purchase of property, plant and equipment		– 1.6	– 1.4
Security deposits received/(paid)		0.5	– 0.4
Purchase of intangible assets		– 5.7	– 3.9
Other investing activities		0.0	– 0.0
Interest received		– 0.0	0.0
Disposal of a subsidiaries, net of cash disposed		11.0	–
Net cash flows used in investing activities (continuing operations)		**4.4**	**– 5.4**
Net cash flows used in investing activities (discontinued operations)		**– 0.3**	**– 0.1**
Net cash flows used in investing activities		**4.1**	**– 5.5**
Financing activities:			
Proceeds from capital increase by initial public offering		122.5	–
Transaction costs on issue of shares		– 4.0	–
Sale/(Purchase) of non-controlling interests		– 0.1	0.2
Interest and other finance charges paid		– 2.4	– 0.7
Proceeds from borrowings	20	15.0	11.5
Repayment of borrowings		– 11.5	–
Payments of finance lease liabilities		– 3.4	– 0.0
Purchase equity instruments		– 1.9	–
Net cash flows from financing activities (continuing operations)		**114.2**	**10.9**
Net cash flows from financing activities (discontinued operations)		**– 1.0**	**– 1.1**
Net cash flows from financing activities		**113.2**	**9.8**
Net change in cash and cash equivalents		**109.7**	**– 3.5**
Effect of exchange rate fluctuations on cash held		– 0.5	– 0.6
Cash and cash equivalents as of January 1	17	13.8	17.9
Cash and cash equivalents as of December 31		**123.0**	**13.8**
Thereof continuing operations		**123.0**	**12.8**
Thereof discontinued operations		**–**	**1.1**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2018

1. GENERAL INFORMATION

The Westwing Group AG (formerly Westwing Group GmbH) and its subsidiaries (together referred to as “Westwing” or the “Group”) belong to the leading eCommerce companies in the European Home and Living sector. Westwing is an integrated Home and Living company, which offers its customers a broad and diverse range of beautiful Home and Living products.

The Company renamed and switched its legal form to Westwing Group AG on August 16, 2018, and is registered at Berlin District Court, Germany, under the number HRB 199007 B since then. The Company applied for registration on September 28, 2018, and is registered at the German stock exchange in Frankfurt since October 9, 2018.

The consolidated financial statements of Westwing Group AG for the fiscal year ended December 31, 2018 were authorized for issue by the Supervisory Board on March 27, 2019.

The Company was incorporated in 2011 and is headquartered in Moosacher Str. 88, 80809 Munich, Germany. As of December 31, 2018, the Group operated in 11 countries (Germany, Austria, Switzerland, Italy, Spain, the Netherlands, France, Poland, Belgium, the Czech Republic and Slovakia) and consisted of 25 legal companies, all of which are consolidated in the consolidated financial statements. The Company sold its affiliates in Brazil and Russia in October and November 2018, respectively. They were treated as discontinued operations since June 30, 2018.

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 European Union, and in accordance with the provisions applicable under German Commercial law as defined in Section 315e German Commercial Code (Handelsgesetzbuch, ‘HGB’).

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. With the exception of the effects from first-time application of IFRS 9 ‘Financial Instruments’, IFRS 15 ‘Revenue from Contracts with Customers’ and IFRS 16 ‘Leases’, the accounting policies and recognition and measurement methods applied in the consolidated financial statements as of December 31, 2017, have been applied without change. These effects are additionally explained in note 2.2. New Standards, amendments and interpretations.

The consolidated financial statements have been prepared in millions of euros (EUR m). 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 and differences may arise when individual amounts or percentages are added up. In respect of financial information set out in this report, a dash (“–”) signifies that the relevant figure is not available, while a zero (“0.0”) signifies that the relevant figure is available but has been rounded to zero.

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

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

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

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

Deferred taxes either as asset or as liability are classified as non-current.

The financial year comprises one calendar year. The balances in the consolidated statement of cash flows are based on actual cash flows for the period.

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

2.2 New Standards, Amendments and Interpretations

The IASB (International Standards Accounting Board) has issued the following Standards or amendments to Standards, which were first time applied in the consolidated Financial Statements for the year ended December 31, 2018.

		IASB Mandatory application	Adoption by the EU by 12/31/2018
IFRS 15	Revenue from Contracts with Customers	1/1/2018	Yes
IFRS 16	Leases	1/1/2019	Yes
IFRS 9	Financial Instruments (July 2014)	1/1/2018	Yes
IFRS 2	Classification and Measurement of Share-Based Payment Transactions	1/1/2018	Yes
IFRIC 22	Foreign Currency Transactions and Advance Consideration	1/1/2018	Yes

Besides the effects described in detail below, the application of the new or amended standards did not have a material impact on group accounting, the presentation of the consolidated financial statements and on the Group's net assets, financial position and results of operations. Apart from IFRS 16, the Group did not early apply standards, interpretations or amendments that are published but not yet effective.

IFRS 15 "REVENUE FROM CONTRACTS WITH CUSTOMERS"

The new standard was issued in May 2014 and establishes a new five-step process for revenue recognition applying to revenue arising from contracts with customers. Under IFRS 15 revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. Revenue is recognized when the customer obtains control over the goods or services. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue. The new revenue standard is applicable to all entities and has superseded all former 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). IFRS 15 also contains guidance on the presentation of contract assets and contract liabilities. All revenues of Westwing qualify as contracts with customers and therefore fall within the scope of the new standard.

As of January 1, 2018, Westwing adopted the new standard by using the modified retrospective method. The comparative figures for earlier periods were not adjusted.

- **Rights of return**
  Certain contracts provide a customer with a right to return the goods within a specified period. For goods that are expected to be returned, instead of revenue, the Group recognize a refund liability under IFRS 15. A right of return asset (and corresponding adjustment to cost of sales) is also recognized under IFRS 15 for the right to recover products from a customer separate from the inventories. Under IAS 18 the Group formerly recognized a net provision for the expected returns of goods. The gross presentation resulted in extension of the balance sheet by EUR 2.6m as of the December 31, 2018, and of EUR 1.2m as of January 1, 2018.

- **Customer care vouchers**
  In case of any delivery delays or quality issues our customer care department offers cash vouchers to our customers for future purchases that have a specified period of time. By applying IFRS 15 to issued but not used vouchers resulted in a revenue reduction, and EUR 0.2m were recognized in the opening balance of retained earnings in the consolidated statement of changes in equity as of January 1, 2018. The vouchers issued in 2018, but probably used in 2019 also amounted to EUR 0.2m, so no effect was recognized.

Other changes of IFRS 15 compared to IAS 18 had no impact on the Group.

If we had used IAS 18 'Revenue' in 2018 this would have led to the following changes in the financial statements:

- Reduction of refund liabilities and rights of return by EUR 2.6m as a result of net presentation in financial statements

- Decrease of contract liabilities by EUR 0.2m as of December 31, 2018, with no impact on revenue in the fiscal year 2018

- Wording change in financial statements using previous definitions such as return provision instead of refund liabilities and customer prepayments in place of contract liabilities

IFRS 16 "LEASES"

This standard is applicable for annual reporting periods beginning on or after January 1, 2019; however early application is permitted if IFRS 15 is already applied at such time. Westwing Group early adopted this standard as of January 1, 2018, using the modified retrospective method. The comparative figures for earlier periods were not adjusted. The transition to IFRS 16 had no impact on the equity of the Group as of the transition date.

Right-of-use assets in the amount of EUR 20.4m and lease liabilities in the amount of EUR 21.4m were recognized as of January 1, 2018, in connection with the first application of IFRS 16. The difference between these two amounts is due to previously recognized provisions for lease expenses. The Group took advantage of the exemption for first-time application of IFRS 16 to adjust the right-of-use assets by the provisions for lease expenses which were recognized in the balance sheet immediately prior to the date of first-time application.

The Group has also decided not to apply IFRS 16 to leases which expire within twelve months of first-time application. Instead, these leases are treated as short-term leases and recognized as expenses from short-term leases.

Based on the operating leases as of December 31, 2017, the following reconciliation was performed to arrive at the lease liabilities recognized in the operating balance sheet of January 1, 2018:

EUR m	1/1/2018
Undiscounted lease payments as of 1/1/2018	25.4
Relief short-term lease	– 0.4
Discount	– 2.7
Reclass of accrued liabilities for rent-free period as of 1/1/2018	– 1.0
Leasing liabilities as of 1/1/2018	**21.4**

Lease liabilities were discounted at the incremental borrowing rate as of January 1, 2018. The weighted average interest rate used was approximately 5.7 %. As part of the opening balance as of January 1, 2018, the right-of-use assets include an amount of EUR 45k which as of December 31, 2017 was recognized in accordance with IAS 17 as finance lease.

The following elements are presented in the financial statements for the period ended as of December 31, 2018:

LEASES IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

EUR m	12/31/2018
Assets	
Property, plant and equipment (right-of-use assets)	16.5
Total	**16.5**
Liabilities	
Non-current lease liabilities	15.8
Current lease liabilities	2.3
Total	**18.1**

IFRS 9 "FINANCIAL INSTRUMENTS"

Westwing adopted the new standard as of January 1, 2018. The transition to the new standard was performed retrospectively, but without any adjustment being made to the comparative figures.

The new classification and measurement requirements defined by IFRS 9 had no material impact as of January 1, 2018.

Major judgments or estimates regarding the expected loss model for trade receivables were not necessary to be exercised, since the typical revenue transaction is based on customers' prepayments.

For trade receivables the Company uses the simplified expected loss model in accordance with IFRS 9. The required valuation adjustment is calculated by considering historical losses and, if relevant, adjusted based on current market developments.

With respect to cash and cash equivalents Westwing has placed funds such as cash and cash equivalents as well as overnight deposits only at renowned banks with positive creditworthiness therefore the risk is assessed as immaterial.

IFRS 2 "SHARE BASED PAYMENT (CLASSIFICATION AND MEASUREMENT OF SHARE-BASED PAYMENT TRANSACTIONS – AMENDMENT TO IFRS 2)"

The amendments of IFRS 2 were adopted by Westwing as of January 1, 2018. The amendments to IFRS 2 are intendend to add clarity on the way companies measure and account for share-based payment transactions. The amendments relate to the effects of vesting/non-vesting conditions on cash-settled share-based payments, the classification of share-based payments that have a net settlement feature as part of an equity-settled plan and the accounting for modifications that change the classification of payments from cash-settled to equity-settled.

We applied the clarifications of the standards. For details we refer to note 2.20 and note 19.

The other elements did not have a material impact on Westwing's share-based compensation plans.

STANDARDS ISSUED BUT NOT YET EFFECTIVE

No new standards or amendments, not yet effective, are expected to have a material impact on the Group.

2.3 Discontinued Operations and Assets and Liabilities Classified as Held for Sale

Discontinued operations are reported when a component represents a separate major line of business or geographical area of operations and is part of a single coordinated plan to dispose of.

Assets held for sale are assets which can be sold in their present condition and whose sale is highly probable. A completed sale of these assets must be expected within one year of the classification date. They may be individual non-current assets, groups of assets (disposal groups), components of entities or subsidiaries which are acquired with the sole intent of resale (discontinued operations). Liabilities which are to be disposed of in the same transaction as assets are components of a disposal group or discontinued operations and are recognized separately as "liabilities in connection with assets held for sale."

Assets are no longer depreciated but are instead recognized at the lower of carrying amount or fair value less cost to sell.

Results from the measurement of individual assets held for sale and disposal groups are recognized in profit and loss from continuing operations until the sale is finalized.

Profit and loss from the measurement of discontinued operations at fair value less cost to sell are recognized as profit and loss from discontinued operations. This also applies for the results from business activities and from the sale of these discontinued operations. Comparative information on continued and discontinued operations is presented in the consolidated income statement on a comparable basis whereas the comparative information is not adjusted in the consolidated statement of financial position.

In the first half of 2018 it was decided by management and approved by the Advisory Board of Westwing Group GmbH (now Westwing Group AG) to divest the Brazilian operating company as well as the operations in Russia covering also Kazakhstan. The sales process was concluded in October 2018 for Brazil and in November 2018 for Russia (covering also Kazakhstan). We also refer to note 30. These operations were reclassified as discontinued operations. With the sales becoming effective, the assets and liabilities in connection with Brazil and Russia are not part of the Group anymore. However, the result of discontinued operations in the income statement is shown separately and includes income and expenses for both companies from January 1 to October 31, 2018, as operations in Brazil was sold by the end of October, 2018 and the entity in Russia beginning of November 2018.

If not stated otherwise, all figures in this report relate to continuing operations only. Prior-year figures are adjusted for the income statement, but not for the statement of financial position. Exceptions are mentioned.

No impact resulted from the obligation to remeasure assets held for sale at fair value less cost to sell, if lower than the carrying amount.

The following tables show the income statement and statement of cash flows for the 10 months period ended October 31, 2018, for discontinued operations. Due to the sale, discontinued operations are no longer included in the balance sheet.

CONDENSED INCOME STATEMENT OF DISCONTINUED OPERATIONS

EUR m	January 1 – October 31, 2018	January 1 – December 31, 2017
Revenue	31.3	46.2
Cost of sales	– 16.5	– 24.4
Gross profit	**14.7**	**21.8**
Operating expenses	– 12.3	– 18.6
Other operating result	– 0.4	0.6
Financial result	– 0.9	– 1.3
Result before tax	1.2	1.3
Income tax	– 0.4	– 0.2
Net result	**0.8**	**1.1**

CONDENSED STATEMENT OF CASH FLOWS OF DISCONTINUED OPERATIONS

EUR m	January 1 – October 31, 2018	January 1 – December 31, 2017
Net cash flows used in operating activities	2.3	0.4
Net cash flows used in investing activities	– 0.3	– 0.1
Net cash flows from financing activities	– 1.0	– 1.1
Net increase / (decrease) in cash and cash equivalents	1.0	– 0.8
Effect of exchange rate fluctuations on cash held	– 0.5	– 1.1
Effect of IFRS 5 — Non-current Assets Held for Sale and Discontinued Operations	– 0.1	– 1.2
Cash and cash equivalents as of January 1	1.1	4.2
Cash and cash equivalents as of October/December 31	**1.5**	**1.1**

ASSETS AND LIABILITIES DISPOSED

The fair values of the identifiable assets and liabilities as of the date of disposal:

EUR m	
Assets	
Intangible assets and property, plant and equipment	2.2
Inventories	3.3
Other current assets	2.5
Cash and cash equivalents	1.5
Total assets	**9.5**
Liabilities	
Provisions	0.2
Lease liabilities	1.3
Other current liabilities	9.0
Total liabilities	**10.5**
Analysis of cash flow on disposal	
Cash and cash equivalents disposed with subsidiaries	– 1.5
Net cash received as a part of consideration	12.5
Net cash received	**11.0**

The transition of the sale consideration and the deconsolidation result is as follows:

EUR m	2018
Net liabilities	1.1
Other comprehensive income	8.2
Sale consideration	15.5
Expenses on disposal	– 1.2
Total	**23.6**

2.4 Consolidation

2.4.1 SCOPE OF CONSOLIDATION

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

As of December 31, 2018, the Company controls 20 domestic subsidiaries (2017: 20), as well as maintaining indirect control of five foreign subsidiaries (2017: seven). The composition of and changes to the Group are detailed in note 33.

The annual financial statements of the Company and its subsidiaries are prepared under uniform accounting standards. Where necessary, the accounting policies of subsidiaries have been changed to align them to the policies adopted by the Group. The financial statements of the Company and its subsidiaries cover the fiscal year 2018, from January 1, 2018, to December 31, 2018, and are prepared as of the reporting date of these consolidated financial statements. Intercompany receivables, liabilities as well as profits or losses, revenues, income and expenses between Group companies are eliminated during the consolidation process.

2.4.2 SUBSIDIARIES

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

2.4.3 NON-CONTROLLING INTERESTS (NCI)

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

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

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. As of December 31, 2018, there were no non-controlling interests in Westwing's operating entities anymore. The small amount of remaining non-controlling interest relates to non-operating companies within the Group.

2.4.4 DISPOSAL OF SUBSIDIARIES

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

2.5 Foreign Currency Translation

Functional and Presentation Currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in euros, 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 as of the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the revaluation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognized in other financial result in the consolidated income statement.

Group Companies

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

- assets and liabilities of foreign operations are translated at the closing rate as of the balance sheet date;

- income and expenses of foreign operations are translated at cumulative average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

All resulting exchange differences are recognized in other comprehensive income in equity. On disposal of a foreign operation, the related component of OCI is recognized in the consolidated income statement.

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

	Assets and liabilities Spot rates		Income and expenses Cumulative average rates	
Value of EUR 1	**12/31/2018**	12/31/2017	**2018**	2017
Brazilian real	4.44	3.97	4.31	3.60
Russian ruble	79.72	69.39	74.06	65.88
US dollar	1.15	1.20	1.18	1.13
Polish zloty	4.30	4.18	4.26	4.26

With the sale of the subsidiaries in Russia and Brazil in the reporting period, only the Polish entity has a different functional currency as of December 31, 2018.

2.6 Revenue Recognition

Westwing generates revenue primarily from the sale of goods through its retail website. In most cases the customer pays upon placing their order online before the Group transfers goods to the customer. Contract liabilities are recognized when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognized as Revenue from contracts with customers when control of goods is transferred to the customer (generally on delivery) at an amount that reflects consideration to which the Group expects to be entitled in exchange for those goods and services. Contract liabilities are shown as a separate line on the balance sheet.

The period between an order and delivery to the customer is between two days and six weeks depending on the type of goods ordered.

In other cases when customers pay on delivery or per an invoice trade receivables arise when control of goods is transferred to the customer until the time when receivables are paid.

The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated (e.g., warranties, customer loyalty points). Consideration represents amounts receivable for goods supplied, stated net of promotional discounts, marketing vouchers, rebates and rights of return liability.

Contracts with customers at Westwing are divided into revenue from product, from delivery and other revenue reduced by sales reductions (note 5).

RIGHT TO RETURN

The company provides a customer a right to return the goods within a certain period of time. The Group uses the expected value method estimated based on past experience in respect of return rates and time lag to estimate an amount for the goods that will be returned. For goods that are expected to be returned, instead of revenue, the Group recognizes a refund liability. A right of return asset (and corresponding adjustment to cost of sales) is also recognized for the right to recover products from a customer.

VOUCHERS

Westwing offers three types of vouchers to their customers that are treated differently under IFRS 15 Revenue from Customers.

Customer Care Vouchers

In case of any delivery delays or quality issues, Westwing's customer care department offers cash vouchers to customers for future purchases that can be used within a certain period of time. Offered cash vouchers to customers are a separate performance obligation for the Group. A stand-alone selling price is calculated and allocated for all performance obligations. For vouchers issued but not used in the same period an estimated usage is calculated based on historical knowledge that reduces Group's revenue of the current period and increases contract liabilities as of the end of the period.

Marketing Vouchers
These are vouchers that are posted on Instagram by our founders or influencers or that are included in newsletters. These vouchers are valid only for a limited period of time and only as a percentage discount. The simple issuance of these marketing vouchers does not create a binding contract with a customer. This only occurs once the customer makes an order. No liabilities are recognized by the Group.

Gift Vouchers
These are vouchers that the Group sells to customers in exchange for cash. These vouchers could be given to friends and later be fully used for an actual purchase at Westwing. No revenue is recognized by the Group when the vouchers are sold, but only when the vouchers are used. A contract liability is recognized when gift cards are sold.

CONTRACT BALANCES

EUR m	12/31/2018	12/31/2017	01/01/2017
Trade receivables	8.2	7.4	5.2
Contract liabilities	7.9	11.7	10.4

Significant decrease in contract liabilities as of December 31, 2018 is mostly due to the disposal of the subsidiaries in Brazil and Russia in the fourth quarter of 2018. The amount of contract liabilities (prior year: customer prepayments) in disposed operations was EUR 3.0m as of December 31, 2017.

Full amount of contract liabilities at the beginning of the year was recognized in revenue during the fiscal year in both 2018 and 2017.

2.7 Expenditure

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

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

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

General and administrative expenses consist of personnel expenses, utilities, and depreciation in respect of the right-of-use assets, technology, campaign and content production and administrative functions of the Group. General and administrative expenses also include consulting and other professional and legal fees including external accounting, recruiting, tax consulting and audit fees. Expenses of buying and personnel expenses related to management functions for logistics in general form also part of general and administrative expenses.

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

Included within the financial result are interest income, interest and other financial expenses, since 2018 including the interest expenses for leasing liabilities in accordance with IFRS 16 and foreign exchange gains and losses within the other financial result.

2.8 Property, Plant and Equipment

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

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

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

Gains and losses on disposals are determined by comparing the proceeds of the sale of property, plant and equipment with the carrying amount of the disposed asset. The gains and losses are recognized in the consolidated income statement of the year in which the disposal took place.

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

Asset	Useful Life 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
Right-of-use assets	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 for impairment if appropriate, whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

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

2.9 Intangible Assets

2.9.1 PURCHASED TRADEMARKS, BRANDS, LICENSES AND SOFTWARE

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

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

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

2.9.2 INTERNALLY GENERATED SOFTWARE

Research and development costs are expensed as incurred, except for development costs which have to be capitalized when certain conditions are met.

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

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

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

2.9.3 AMORTIZATION

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

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

2.9.4 IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLES

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

2.10 Leases

Since January 1, 2018, upon lease commencement date Westwing recognizes a right-of-use asset and a lease liability for lease agreements where the Group is the lessee. The right-of-use asset is initially measured at the amount of the lease liability plus any initial direct costs incurred by the lessee. Adjustments may also be required for lease incentives, payments at or prior to commencement and restoration obligations or similar.

After lease commencement, the right-of-use asset is measured using a cost model. Under the cost model a right-of-use asset is measured at cost less accumulated depreciation and accumulated impairment.

The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessee shall use their incremental borrowing rate.

The lease liability is subsequently remeasured to reflect changes in the lease term (using a revised discount rate); the assessment of a purchase option (using a revised discount rate); the amounts expected to be payable under residual value guarantees (using an unchanged discount rate); or future lease payments resulting from a change in an index or a rate used to determine those payments (using an unchanged discount rate).

The Group has chosen not to apply IFRS 16 to leases which expire within twelve months of first-time application. Instead, these leases are treated as short-term leases and recognized as expenses from short-term leases.

Until December 31, 2017, Westwing applied IAS 17 Leases. According to IAS 17 leases were required to be classified as either finance leases and operating leases.

A lease was classified as a finance lease if it transferred substantially all the risks and rewards incident to ownership. All other leases were classified as operating leases. Classification was made at the inception of the lease.

Accounting of finance lease did not differ significantly from the accounting of lease by a lessee under IFRS 16:

- At commencement of the lease term, finance leases were recorded as an asset and a liability at the lower of the fair value of the asset and the present value of the minimum lease payments (discounted at the interest rate implicit in the lease, if practicable, or else at the entity's incremental borrowing rate).

- Finance lease payments were apportioned between the finance charge and the reduction of the outstanding liability.

- The depreciation policy for assets held under finance leases was consistent with that for owned assets. If there was no reasonable certainty that the lessee will obtain ownership at the end of the lease, the asset was depreciated over the shorter of the lease term or the life of the asset.

For operating leases, the lease payments were recognized as an expense in the income statement over the lease term on a straight-line basis, unless another systematic basis was more representative of the time pattern of the user's benefit.

2.11 Inventories

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

The acquisition cost of inventory includes purchase costs and costs incurred to bring the inventories to their present location and condition. The Company's inventories are measured using the FIFO (first-in, first-out) method.

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

2.12 Financial Assets

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income (OCI), and fair value through profit or loss. The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them.

Under IFRS 9, the Group measures financial assets at amortized costs if the financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Under IAS 39, the classification of a financial asset depended 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 measured at amortized cost. There was no change when IFRS 9 was applied for the first time, as Westwing has not identified financial assets measured at fair value.

Financial assets measured at amortized costs 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 14 and 17).

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

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

Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

2.13 Fair Value Measurement

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

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

2.14 Impairment of Financial Assets

The procedure for assessing potential impairments has changed with the first-time application of IFRS 9. Under IFRS 9, the Group recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms. ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Under IAS 39, the incurred loss approach was backward looking. Westwing used to make an assessment at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets was impaired. A financial asset or a group of financial assets was impaired and impairment losses incurred only if there was 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) had an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

2.15 Financial Liabilities

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss or at amortized cost (loans and borrowings as well as payables). Westwing does not use derivatives designated as hedging instruments. The classification of financial liabilities depends on the nature and purpose of the liability and is determined by management at initial recognition. Besides financial liabilities designated as held for trading under IAS 39 and which are now at fair value through profit or loss, the classification of financial liabilities under IFRS 9 did not change compared to IAS 39.

Financial Liability at Fair Value Through Profit or Loss

A financial liability at fair value through profit or loss is initially recognized at fair value on the commencement date of the contract and is subsequently re-measured to its fair value. Any changes to the instrument´s fair value are recognized directly through the consolidated income statement.

The loan agreements entered into with Kreos Capital IV (Luxembourg) S.à r.l. (referred to as "Kreos") and GGC EUR S.À.R.L (referred to as "GGC") entailed warrant agreements whereby Kreos and GGC had the option to be provided with shares in Westwing upon execution of the warrants. The warrants were attached to the borrowings but are not closely related to these instruments. As a result, the Kreos warrants from 2013 and 2017 as well as the GGC warrant from 2018 have been classified as financial liabilities at fair value through profit or loss and are accounted for separately from the loans. The Kreos loans were paid back in full in 2018.

Given the connection to the moving share price and the variability of the value of the instruments, the definition of a derivative under IFRS 9 was met and the warrants were classified as financial liabilities measured at fair value through profit or loss. Consequently, they are revalued to fair value at each reporting date.

Financial Liabilities at Amortized Cost

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

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

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

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

The financing round with the Westwing Group's investors in May 2016 was accounted for as a financial liability at amortized cost in accordance with IFRS. Upon initial recognition of such financing, any transaction costs incurred are either recognized in the consolidated income statement or recognized over the remaining term dependent on their contractual agreements.

In September 2018, the liability from the May 2016 financing round amounting to EUR 40.5m was converted into equity in accordance with IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments."

2.16 Cash and Cash Equivalents

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

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

2.17 Share Capital

The share capital is fully paid.

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

2.18 Treasury Shares

Treasury shares are the shares which were bought back by Westwing, reducing the number of shares outstanding on the open market. Treasury shares do not have any voting rights. The possession of these shares does not give the company the right to either receive any assets on company liquidation or to exercise pre-emptive rights as a shareholder. These shares reduce the ordinary share capital. They are presented in the balance sheet as a reduction of equity. Westwing can use treasury shares to provide participants of share-based compensation programs with shares when their options are vested, and they exercise them. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognized in capital reserves.

2.19 Provisions

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

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

2.20 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 were also granted share appreciation rights, which are settled in cash (cash-settled transactions). Besides a minor number of plans, these cash-settled plans were converted into equity-settled plans in 2018. This conversion is treated as modification. In addition, a minor part of the compensation contracts of the Management Board was modified by conversion from equity-settled plans to cash-settled plans.

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. Since Westwing became listed, the listed share price is either used directly or as an input factor for the option pricing model used to determine the option fair value. The fair value determined at the grant date is expensed 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. As a basic principle Westwing uses a graded vesting approach. For awards with graded-vesting features, each installment of the award is treated as a separate grant. This means that each instalment is separately expensed over the related vesting period. The cumulative expense recognized for equity-settled share-based transactions at each reporting date up to the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. 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.

The expense or credit for a period recognized in the income statement represents the movement in cumulative expense recognized as of the beginning and end of that period.

When options are exercised, there are two possibilities how to serve them: either the Company issues new shares (case 1) or treasury shares are used to provide the option holders with shares (case 2). In both cases the amount that was previously recognized in the share-based payment reserve for the option holder is fully reclassed to other equity components. In case 1 the share capital is increased in the nominal amount of the exercised shares and the difference between the share-based payment reserve and the nominal amount is recognized in capital reserves. The cash received for the exercise price is increasing the capital reserve as well. In case 2, the amount of treasury shares representing the exercised value of shares is reduced in the value of the original payment for the treasury share on a pro rata basis, the remaining difference is recognized in capital reserves.

Cash-Settled Transactions

The cost of cash-settled transactions is measured at fair value using an appropriate valuation model. The fair value is established initially at the grant date and at each reporting date thereafter until the awards are settled. During the vesting period, a liability is recognized representing the fair value of the award and the vesting period expired as of the reporting date. Changes in the carrying amount of the liability are recognized as an expense in the income statement over the period. In 2018, nearly all cash-settled transactions were converted into equity-settled transactions.

When cash-settled options are exercised, the recorded liability is derecognized and the difference is recognized in profit or loss.

2.21 Post-Employment Benefits

Westwing does not have any typical pension schemes. However, in Italy and France there are provisions required by local law to recognize costs for employees that are entitled to receive when they leave the company. The Group's net obligations are determined separately for each plan by estimating the present value of future benefits that employees have earned. The calculation for the present value of defined benefit obligations is measured using the corresponding government's guidelines.

2.22 Current and Deferred Income Taxes

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

Current tax expense is calculated on the basis of the tax regulations applicable on the balance sheet date in those countries in which the subsidiaries are operating and generate taxable income.

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

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

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

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

3.1 Overview

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

Estimates and judgements are continually evaluated and are based on management's historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Management also makes certain judgements in addition to those involving estimations in the process of applying accounting policies. Changes in accounting estimates are recognized in the period in which the change takes place provided that such change exclusively affects that period.

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

3.2 Allowance for Obsolete Inventories (Note 15)

Inventory is valuated at the lower of acquisition costs and net realizable value. To determine the net realizable value of certain stock an allowance of inventory is recognized based on management's estimate of losses resulting from the sale of such items and calculated on the basis of historical experience as well as past and anticipated market performance.

3.3 Income Taxes (Note 27)

Current Taxes

The Group recognizes current income tax assets and liabilities based on the taxable income of the respective Group Company in the financial year.

Deferred Income Taxes

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.

Excepted for Spain the rest of the Group recognized due to the loss history deferred tax assets only to the extent to which they net off against deferred tax liabilities.

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.

3.4 Share-Based Compensation (Note 19)

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 until the Company was listed on the stock market required determination of the most appropriate valuation model, which was dependent on the terms and conditions of the grant. This estimate also required determination of the most appropriate inputs to the valuation model including the expected life of the share option, volatility and yield and making assumptions about each. Since Westwing is now listed at the stock market, the fair value is determined by the same underlying option-pricing model with the share price at grant date as an input factor.

At the end of each reporting period, the Group reviews its estimates of the number of awards expected to vest and recognizes the impact of any revision to original estimates, in the income statement, with a corresponding adjustment to equity.

3.5 Refund Liabilities (Note 22)

Customers ordering products online have the right to return these products within a defined period after the purchase, with length of return validity varying by country. In its accounts, Westwing therefore records a refund liability for such returns to ensure revenue is not overstated. The amount recorded as the refund liability is calculated based on past experience and current information on gross sales. The liability is calculated per country and adjusts revenue accordingly. With the introduction of IFRS 15, at the same time a right to return the product is recognized, an asset is recognized, adjusting cost of sales.

4. OPERATING SEGMENTS

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM), and for which discrete financial information is available. The CODM is the person or group of persons who allocates resources and assesses the performance of the segments. The function of the CODM is performed by the Management Board of Westwing Group AG.

According to this, Westwing divides its operating segments in DACH and International. These segments are defined as follows:

- The DACH segment is comprised of Germany, Switzerland and Austria.

- The International segment consists of Spain, Italy, France, Poland, the Czech Republic, Slovakia, Belgium and the Netherlands.

- In general, expenses and income occurred in the headquarter are allocated to the operating segments. However, the column "HQ/Reconciliation" contains central elements of the holding such as IPO costs, depreciation and amortization as well as central costs allocated to discontinued operations and the parent company's cash and cash equivalents. Westwing Group AG provides a range of IT, marketing and other services (in particular commercial and technical advisory services) to its subsidiaries and holds cash and cash equivalents for new investments and financing purposes.

The Group measures the performance of its operating segments based on revenue growth and adjusted operating result (Adjusted EBITDA) in combination with the Adjusted EBITDA margin.

The Adjusted EBITDA shows the operating result before interest, taxes, depreciation and amortization and income or expenses for share-based compensation. In 2018, IPO costs recognized in profit and loss and central costs allocated to discontinued operations were also adjusted (affiliates in Brazil and Russia were sold in October and November 2018, central costs were allocated for full year due to e.g. ongoing handover).

Revenues resulting from transactions between operating segments are eliminated for consolidation purposes and are not included in the overview of the operating segments, as the CODM controls the operating segments based on revenues from transactions with third parties. However, in order to manage the segments all central costs are allocated to the segments, even if this is applied differently in the IFRS income statement.

The measurement and valuation standards applied by the Group are consistent for all operating segments.

The operating segment information for the financial year which ended on December 31, 2018 (all amounts are in EUR m unless stated otherwise):

2018	DACH	International	HQ/Reconciliation	Group
Result before income tax for continuing operations	**– 10.9**	**– 4.8**	**– 10.7**	**– 26.4**
Interest expenses*	8.0	0.4	–	8.4
Interest income*	– 1.8	–	–	– 1.8
Other financial result*	0.3	–	–	0.3
Operating result	**– 4.4**	**– 4.5**	**– 10.7**	**– 19.5**
IPO costs	–	–	4.4	4.4
Depreciation and amortization	1.9	1.7	3.7	7.2
Share-based compensation*	8.2	0.1	–	8.4
Central costs allocated to discontinued operations	–	–	2.6	2.6
Adjusted EBITDA	5.7	– 2.7	–	3.1
Adjusted EBITDA margin	4.3 %	– 2.2 %	–	1.2 %
Revenue	133.2	120.7	–	253.9
Cash and cash equivalents	9.2	5.3	108.5	123.0

* Includes headquarter costs not broken down to segments, and thus reported in the DACH segment.

The operating segment information for the financial year which ended on December 31, 2017 (all amounts are in EUR m unless stated otherwise):

2017	DACH	International	HQ/Reconciliation	Group
Result before income tax for continuing operations	**– 17.8**	**– 6.4**	**– 8.3**	**– 32.5**
Interest expenses*	8.8	0.1	–	8.9
Interest income*	0.0	0.0	–	0.0
Other financial result*	– 0.2	– 0.2	–	– 0.4
Operating result	**– 9.2**	**– 6.5**	**– 8.3**	**– 24.0**
Depreciation and amortization	0.4	0.7	4.0	5.1
Share-based compensation*	10.1	0.7	–	10.8
Central costs allocated to discontinued operations	–	–	4.0	4.0
Adjusted EBITDA	1.3	– 5.1	– 0.3	– 4.0
Adjusted EBITDA margin	1.3 %	– 4.2 %	–	– 1.8 %
Revenue	97.6	122.0	–	219.6
Cash and cash equivalents	4.2	6.3	2.3	12.8

* Includes headquarter costs not broken down to segments, and thus reported in the DACH segment.

Group entities with their registered office in Germany attained third party revenue amounting to EUR 140.9m (2017: EUR 97.8m) while revenue abroad was recognized with EUR 112.9m (2017: EUR 121.8m). Revenue in Italy was EUR 36.1m (2017: EUR 45.5m) and revenue in Spain EUR 28.7m (2017: EUR 26.7m).

Germany reported long-term assets (not including financial instruments) on the balance sheet amounting to EUR 23.0m (2017: EUR 8.0m), while entities outside Germany showed long-term assets of EUR 7.0m (2017: EUR 2.1m).

The allocation of revenue and long-term assets is done on legal entity level. Therefore, it differs from the segment reporting approach as revenue and expenses for the International segment include parts of revenue of the German entity Westwing GmbH relating to the WestwingNow international business.

5. ANALYSIS OF REVENUE

Revenue from contracts with customers for the year is comprised of the following:

EUR m	2018	2017
Revenue from the sale of products	245.0	210.2
Revenue from shipping charges	10.4	10.6
Other revenue	2.9	2.2
Sales reductions	– 4.4	– 3.4
Total	**253.9**	**219.6**

6. ADDITIONAL INFORMATION ON INCOME AND EXPENSES

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

EUR m	2018	2017
Rent and other operating lease expenses	2.2	5.8
Depreciation and amortization	7.2	5.1
Loss / (gain) from revaluation of financial liabilities	3.2	8.1
Auditor’s remuneration (recognized as expenses or within equity)		
Audit cost according to Sec. 314 para. 1 No. 9a HGB of which relates to previous periods TEUR 17 (2017: TEUR 22)	0.4	0.4
Other attestation services according to Sec. 314 para. 1 No. 9b HGB rendered before September 28, 2018	1.0	–
Other attestation services according to Sec. 314 para. 1 No. 9b HGB rendered on or after September 28, 2018	0.1	–
Tax services according to Sec. 314 para. 1 No. 9c HGB rendered before September 28, 2018	0.0	–
Tax services according to Sec. 314 para. 1 No. 9c HGB rendered after September 28, 2018	0.0	–

Rent and other operating lease expenses include from 2018 onwards only variable and short-term lease payments of EUR 1.7m and ancillary costs of EUR 0.5m.

The attestation service according to Sec. 314 para.1 Nr 9b HGB relate to the comfort letter required for the IPO. They have been incurred in relation to the procedures of the IPO and the resulting review of interim financial information. The differentiation before and after September 28, 2018 results from the deviating requirements for listed and non-listed entities regarding auditor fees.

7. PERSONNEL EXPENSES

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

EUR m	2018	2017
Wages, salaries and other short-term employee benefits	– 37.5	– 35.9
Share-based compensation expenses	– 8.4	– 10.8
Social security and similar expenses	– 8.4	– 8.0
Total	**– 54.3**	**– 54.7**

In 2018, Westwing employed on average 1,108 employees (2017: 1,011 employees) in the following functional areas:

	2018	2017
Fulfilment	346	292
Marketing	136	115
Administration	626	605
Total	**1,108**	**1,011**

The numbers shown only comprise employees in continuing operations. In 2018, the average number of employees at discontinued operations was 388 (2017: 401).

Next to regular personnel expenses, there are post-employee benefits granted to Group employees in Italy and France. They comprises mainly the Italian employee severance indemnity (trattamento di fine rapporto, or "TFR") obligation, required under Italian Law, amounting to EUR 0.6m as of December 31, 2018 (2017: EUR 0.5m) included in current non-financial liabilities. The amount of TFR to which each employee is entitled must be paid when the employee leaves the Group and is calculated based on the period of employment and the taxable earnings of each employee. Under certain conditions, the entitlement may be partially advanced to an employee during their working life. The legislation regarding this scheme follows the regulations issued in 2007. Companies with at least 50 employees are obliged to transfer the TFR to the "Treasury fund" managed by the Italian state-owned social security body ("INPS") or to supplementary pension funds. Consequently, the Italian company's obligation to INPS and the contributions to supplementary pension funds take the form of defined contribution plans under IAS 19 – Employee Benefits, whereas the amounts recorded in the provision for employee severance pay retain the nature of defined benefit plans. The scheme has been classified as a defined contribution plan and the Group recognizes the associated cost over the period in which the employee renders service.

8. OTHER OPERATING EXPENSES AND INCOME

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

EUR m	2018	2017
Bad debt expenses	– 0.3	– 0.3
Other operating expenses	– 0.4	– 1.1
Total	**– 0.7**	**– 1.4**

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

EUR m	2018	2017
Rental income	0.0	0.3
Income from release of provisions	0.1	0.2
Other operating income	0.5	0.2
Total	**0.7**	**0.7**

9. EXPENSES IFRS 16 LEASES

LEASES IN THE CONSOLIDATED INCOME STATEMENT

EUR m	January 1 – December 31, 2018
General administrative expenses	
Expenses from variable and short-term leases	–1.7
Other lease expenses (ancillary costs)	–0.5
Depreciation	
Depreciation/impairment on right-of-use assets	–4.2
Financial result	
Interest expenses from lease liabilities	–0.9

10. FINANCIAL RESULT

The financial result for the year comprises the following:

EUR m	2018	2017
Finance income:		
Interest income	1.8	0.0
Total finance income	**1.8**	**0.0**
Finance costs:		
Interest expenses	–7.0	–8.3
Finance lease interest	–0.9	–
Other financial expenses	–0.5	–0.6
Total finance costs	**–8.4**	**–8.9**
Net finance result	**–6.6**	**–8.9**
Other financial result:		
Currency exchange gains	0.3	0.8
Currency exchange losses	–0.6	–0.4
Other financial result	**–0.3**	**0.4**
Financial result	**–6.9**	**–8.5**

Interest income relates to the revaluation of the GGC warrant (EUR 0.9m) and Kreos (EUR 0.9m).

Interest expenses decreased by EUR 1.3m compared to the previous year and amounted to EUR 7.0m. They relate with EUR 1.8m to the loans entered into with GGC (EUR 0.9m) and Kreos (EUR 0.9m), while a minor amount of EUR 0.1m was incurred with CITI, before the loan was fully paid back again. Furthermore, non-cash financial expenses resulting from the use of the effective-interest-rate method to amortize the May 2016 financing liability (EUR 5.0m) were included here. The liability from the May 2016 financing round was converted into equity in September 2018. We refer to note 21.

Other financial expenses result from several fees for finance transactions.

11. EARNINGS PER SHARE

Earnings per share is calculated as follows:

EUR m	2018	2017
Result of the continuing operations attributable to owners of the parent	– 27.4	– 30.2
Weighted average number of ordinary shares in issue (in pieces)	15,497,938	13,726,650
Earnings per share (in EUR) from continuing operations attributable to the owners of the Company; undiluted (= diluted)	– 1.77	– 2.20
Earnings per share (in EUR) from discontinued operations attributable to the owners of the Company; undiluted (= diluted)	1.62	0.07
Basic and diluted result per share (in EUR) attributable to the owners of the Company; undiluted (= diluted)	**– 0.15**	**– 2.13**

The weighted average number of ordinary shares in issue takes into account the several capital increases of the year, treasury shares are deducted. In accordance with IAS 33 Earnings per share, the effects of anti-dilutive potential shares have not been included when calculating diluted earnings per share for the years ended December 31, 2018 and 2017. As a result, the diluted earnings per share is the same as the basic earnings per share.

12. PROPERTY, PLANT AND EQUIPMENT

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

EUR m	Leasehold improvements	Furniture, fittings and equipment	Assets under finance lease	Prepayments on PPE	Total
Cost as of January 1, 2017	**2.6**	**9.5**	**–**	**0.0**	**12.1**
Additions	0.6	0.7	0.1	0.2	1.6
Transfers	–	0.2	–	– 0.2	–
Disposals	– 0.0	– 0.2	– 0.0	–	– 0.3
Exchange adjustment	– 0.0	– 0.1	–	–	– 0.2
Cost as of December 31, 2017	**3.2**	**10.0**	**0.0**	**0.0**	**13.3**
Accumulated depreciation as of January 1, 2017	**1.5**	**4.1**	**–**	**–**	**5.6**
Depreciation charge / impairment	0.4	1.4	0.0	–	1.8
Transfers	–	0.1	–	–	0.1
Disposals	– 0.0	– 0.1	–	–	– 0.2
Exchange adjustment	– 0.0	– 0.1	–	–	– 0.1
Accumulated depreciation as of December 31, 2017	**1.8**	**5.4**	**0.0**	**–**	**7.2**
Carrying amount as of December 31, 2017	**1.4**	**4.7**	**0.0**	**0.0**	**6.1**

EUR m	Leasehold improvements	Furniture, fittings and equipment	Right-of-use assets	Prepayments on PPE	Total
Cost as of January 1, 2018	**3.2**	**10.0**	**–**	**0.0**	**13.3**
Additions	0.1	1.4	20.6	0.2	22.2
Transfers	–	0.0	0.0	–	0.0
Disposals	– 0.7	– 1.2	– 0.0	–	– 1.9
Exchange adjustment	– 0.0	– 0.1	–	– 0.0	– 0.1
Cost as of December 31, 2018	**2.5**	**10.1**	**20.7**	**0.2**	**33.5**
Accumulated depreciation as of January 1, 2018	**1.8**	**5.4**	**–**	**–**	**7.2**
Depreciation charge / impairment	0.3	1.1	4.2	0.0	5.6
Transfers	–	–	–	–	–
Disposals	– 0.6	– 0.6	– 0.0	–	– 1.1
Exchange adjustment	– 0.0	– 0.0	0.0	– 0.0	– 0.1
Accumulated depreciation as of December 31, 2018	**1.5**	**5.8**	**4.2**	**0.0**	**11.6**
Carrying amount as of December 31, 2018	**1.0**	**4.3**	**16.5**	**0.2**	**21.9**

Acquisitions of furniture, fittings and equipment occurred across all entities and included servers and IT hardware as well as office and warehouse equipment. Additions to right-of-use assets relate to the first-time application of IFRS 16 and comprise primarily leases for offices and warehouses.

Right-of-use assets were impaired by EUR 0.5m because of the move of our warehouse from Berlin, Germany, to Poznan, Poland, which we expect to be completed in early 2019.

13. INTANGIBLE ASSETS

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

EUR m	Software and licenses	Trademarks	Internally generated intangibles	Intangibles under development	Total
Cost as of January 1, 2017	**0.7**	**0.3**	**5.1**	**0.3**	**6.4**
Additions	0.1	–	0.5	3.3	3.9
Transfers	–	–	2.6	– 2.6	–
Disposals	– 0.0	–	–	– 1.0	– 1.0
Exchange adjustment	– 0.0	–	0.0	–	– 0.0
Cost as of December 31, 2017	**0.8**	**0.3**	**8.2**	**0.0**	**9.3**
Accumulated depreciation as of January 1, 2017	**0.4**	**0.1**	**2.2**	**–**	**2.8**
Amortization charge	0.2	0.0	2.2	–	2.5
Impairment charge	–	–	0.0	1.0	1.0
Transfers	– 0.1	–	0.1	–	–
Disposals	– 0.0	–	–	– 1.0	– 1.0
Exchange adjustment	– 0.0	–	0.0	–	0.0
Accumulated depreciation as of December 31, 2017	**0.6**	**0.1**	**4.6**	**–**	**5.3**
Carrying amount as of December 31, 2017	**0.2**	**0.2**	**3.6**	**0.0**	**4.0**

EUR m	Software and licenses	Trademarks	Internally generated intangibles	Intangibles under development	Total
Cost as of January 1, 2018	**0.8**	**0.3**	**8.2**	**0.0**	**9.3**
Additions	0.1	0.0	5.6	–	5.7
Transfers	– 0.0	–	–	–	– 0.0
Disposals	– 0.1	–	– 0.0	– 0.0	– 0.2
Exchange adjustment	– 0.0	–	– 0.0	– 0.0	– 0.0
Cost as of December 31, 2018	**0.7**	**0.3**	**13.7**	**0.0**	**14.8**
Accumulated depreciation as of January 1, 2018	**0.6**	**0.1**	**4.6**	**–**	**5.3**
Amortization charge	0.1	0.0	1.5	0.0	1.6
Disposals	– 0.1	–	– 0.0	– 0.0	– 0.1
Exchange adjustment	– 0.0	–	– 0.0	– 0.0	– 0.0
Accumulated depreciation as of December 31, 2018	**0.6**	**0.1**	**6.1**	**0.0**	**6.7**
Carrying amount as of December 31, 2018	**0.2**	**0.1**	**7.7**	**0.0**	**8.0**

Additions to internally generated intangibles and intangibles under development of EUR 5.6m (2017: EUR 3.8m) largely comprise of development costs in respect to the OMS (warehouse management system), mobile app projects as well as the development of own software in the area of consumer apps, the integration of WestwingNow, improvement of stability, speed and security. The development projects have been separated into identifiable project phases, characterized by the development of new functionalities. Upon the completion of distinguished phases and roll-out of a functionality, the related costs are transferred from intangibles under development into internally generated intangibles, at which point amortization over the useful life of five years commences.

Amortization of intangible assets is fully recorded in general and administration expenses. There were no indicators that would indicate the impairment of intangible assets in 2018 (2017: EUR 1.0m).

14. TRADE AND OTHER RECEIVABLES

Trade and other receivables are comprised of the following:

EUR m	12/31/2018	12/31/2017
Trade receivables	8.2	7.4
Rent deposits	3.1	4.1
Other receivables	1.5	1.2
Trade and other receivables, net	**12.8**	**12.7**
Thereof:		
Non-current	2.9	3.7
Current	10.0	9.0

Trade receivables are shown net of an allowance for expected credit losses. Receivables against payment service providers of EUR 3.7m which are included here do not bear any credit risk as the service providers cover the loss. The allowance for expected credit losses in trade receivables amounted to EUR 1.0m (2017: EUR 0.7m). The other classes within trade and other receivables do not contain impaired assets.

The Company does not hold any collateral as security.

Disclosures in respect of financial assets and liabilities can be found in notes 24 and 25.

15. INVENTORIES AND PREPAYMENTS ON INVENTORIES

Inventories and prepayments on inventories have developed as follows:

EUR m	12/31/2018	12/31/2017
Inventories	22.6	21.7
Prepayments on inventories	2.5	2.4
Total	**25.1**	**24.1**

Inventories available for sale representing products and merchandise are stated net of a provision for inventory write off amounting to EUR 6.0m (2017: EUR 5.5m).

16. OTHER ASSETS

EUR m	12/31/2018	12/31/2017
Other advances	1.6	1.5
VAT receivables	0.8	0.0
Other tax receivables	0.6	0.4
Right of return assets	2.6	–
Other non-financial receivables	0.5	0.1
Total	**6.1**	**2.1**

17. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are comprised of the following:

EUR m	12/31/2018	12/31/2017
Cash at bank and in hand	67.9	13.8
Cash equivalents	55.1	–
Total	**123.0**	**13.8**

As of December 31, 2018, bank accounts of Westwing Group AG and Westwing GmbH amounting to EUR 46.3m were pledged to GGC in the course of the loan issued and the warrant agreement entered into in 2018. As of December 31, 2018, the Group had available EUR 3.0m (December 31, 2017: EUR 0.1m) of undrawn committed borrowing facilities.

In the prior year, the bank accounts of Westwing Group GmbH and Westwing GmbH (EUR 4.8m as of December 31, 2017) were pledged to Kreos in the course of the loan issued and the warrant agreement entered into in 2017. The loans were fully paid back to Kreos in 2018.

Cash equivalents amounting to EUR 55.1m represent a short-term deposit with a maturity period up to 3 months.

18. SHARE CAPITAL AND RESERVES

Share Capital and Capital Reserves

An overview of how share capital developed is as follows:

In EUR k	Number of outstanding shares
January 1, 2017	92
Issue of ordinary shares in 2017	–
At December 31, 2017 / January 1, 2018	**92**
Issue of ordinary shares in 2018	20,649
At December 31, 2018	**20,741**

The total authorized number of ordinary no-par value shares as of December 31, 2018, is 20,740,809 shares (December 31, 2017: 91,702 shares) with a nominal value of EUR 1.00 per share. Each share entitles the bearer to one vote at the Westwing Group AG's Annual General Meeting. The nominal value of all ordinary shares is fully paid. The capital reserves of EUR 349.1m (December 31, 2017: EUR 210.3m) consists of the amounts of the capital increases from the past years which exceeded the nominal value.

In 2018, several equity transactions took place.

- The warrant liability from the May 2016 financing round was converted into equity in September 2018; EUR 11,912 were allocated to share capital, the rest of EUR 40.5m was recognized in capital reserves.

- In addition, there was a capital increase from company funds in September 2018, amounting to EUR 15,438,486, which reduced the capital reserves. At the same time a share split took place with a ratio of 1:150.

- The form of the shares was changed to bearer shares with no par value at the end of September 2018.

- In October 2018, the Company issued 4,400,000 shares as part of the initial public offering. EUR 110.0m from the gross proceeds from the initial public offering exceeded the nominal value and was recognized in capital reserves. EUR 4.0m was recognized as costs directly attributable to the IPO and included in capital reserves.

- On October 18, 2018, a roll-up of shares from affiliates shares hold by founders to shares in Westwing Group AG took place, resulting in a capital increase of EUR 481,350. On the same date there was a cash capital increase of EUR 6,000.

- On November 13, 2018, the capital increase from the Greenshoe option was registered, amounting to EUR 311,359. EUR 7.8m were allocated to the capital reserves.

In 2017 there was no capital increase.

As of December 31, 2018, the retained earnings amount to EUR – 305.2m and result from the net losses from the financial years since formation (EUR – 269.3m as of December 31, 2017).

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 January 1, 2013. The share-based compensation reserve comprises the value of equity-settled share-based compensation. The reserve increased by EUR 9.7m as a result of the conversion from cash-settled to equity settled plans in June 2018.

The other comprehensive income reserve of EUR 0.3m (2017: EUR 7.2m) represents foreign currency differences arising from the translation of foreign operations into the presentational currency. The amounts recognized are reclassified to the profit and loss upon disposal of these foreign operations. As the Company sold the entities in Russia and Brazil in 2018, the foreign currency reserve was recognized as income within deconsolidation accordingly, amounting to EUR 8.2m. The remaining portion of EUR 0.3m is allocated to the Polish entity.

Within the course of the preparation of being a listed company, equity from operating entities and their holding companies that used to be held primarily by founders was rolled-up to the Westwing Group AG, partially in replacement for shares. This resulted in the changes from non-controlling interests to owners from the Company in the equity statement in 2018.

19. SHARE-BASED COMPENSATION

Since 2011 certain eligible employees of the Group are entitled to participate in share-based compensation arrangements, 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).

The following changes occurred in 2018 with regard to the Group's share-based compensation arrangements:

Westwing has decided to align the share-based compensation plans within the Group. Instead of differentiating between equity-settled and cash-settled share-based compensation plans within individual group entities the ultimate parent company will operate only equity-settled share-based compensation plans for eligible employees. In order to implement this new structure, a roll-up of the majority of the existing compensation schemes within the individual subsidiaries has taken place. This roll-up has been effectuated via a replacement of the awards outstanding under existing plans on subsidiary level by new awards issued by Westwing Group GmbH (now: Westwing Group AG). This replacement is accounted for as a modification under IFRS 2. All new plans allow the Company to settle the replacement awards either in equity or in cash. Since the clearly defined intention and policy of Westwing is to settle the resulting obligations in equity, the Group does not have an obligation to settle the awards in cash. Accordingly, all new plans are accounted for as equity-settled share-based compensation plans.

The replacement of the awards outstanding under the existing plans with awards at Westwing Group AG level has taken place via a fixed conversion rate based on country-level valuations compared to the valuation of the total Group. The replacement of equity-settled awards on country level to equity-settled share-based compensation on Group-level plans did not result in an additional incremental fair value granted to the eligible employees. Furthermore, the original vesting conditions have been kept constant for the replacement agreements. Therefore, the expenses after the replacement of the equity-settled awards result from recognizing the remaining expenses under the existing plans over the remainder of the original vesting periods.

With respect to the replacement of awards outstanding under the virtual stock option plan originally issued to employees in Germany by options granted under a new option plan, this has led to a change in classification from cash-settled to equity-settled on the replacement date.

The cash-settled liability was last remeasured on the modification date and then reclassified to equity. The equity-settled share-based payment transaction is measured by reference to the fair value of the options granted at the replacement date, and it is recognized in equity to the extent to which services have been received. As an impact the share-based payment compensation expenses in 2018 include income of EUR 5.9m that results from the remeasurement of the cash-settled liability. The remeasured value of EUR 9.7m was derecognized and replaced as of the modification date.

Next to the ongoing recognition of existing share-based payment programs and the further vesting of the modification to equity-settled share-based compensation described above, the following special effects occured in 2018:

During the year it was decided to issue anti-dilution shares to eligible employees to avoid a dilution after the May 2016 warrant conversion into equity in September 2018. The underlying conditions were kept consistent with the original grants. As the distribution of further options due to dilution effects has not been agreed within the original contracts, the anti-dilution agreements are accounted for as new equity-settled share-based compensation awards. They are measured as of the grant date in 2018. Due to the graded vesting conditions reflecting their original contracts the majority of expenses are being incurred already in financial year 2018 leading to an expense of EUR 4.3m. For some recipients of the anti-dilution option it was additionally agreed to reimburse any resulting tax implication from the increase in compensation. The effect that results from this reimbursement is presented as a cash-settled share-based compensation amounting to EUR 0.3m as of balance sheet date, increasing expenses by the same amount.

In addition, the board members waived parts of their options from the commitment package 2016, which were previously recognized at EUR 1.4m and received instead the same number of cash-settled options contingent upon a successful IPO. This replacement is treated as a modification from equity-settled to cash-settled share-based compensation. At the date of the modification from equity-settled to a cash-settled compensation a liability is recognized based on the fair value of the cash-settled award as at that date and the extent to which the vesting period has expired. The liability is recognized against the originally incurred share-based payment reserve. The fair value is based on the average share price 30 trading days before March 31, 2019. At the modification date this did not result in any impact on profit or loss. However, going forward as cash-settled compensation is being re-measured at its fair value at each reporting date a net impact of an income of EUR 0.2m has been recognized within the income statement for this commitment package.

Furthermore, in order to compensate long-term employees and especially the founders, the Group operates some vested equity-settled options that were settled in cash in the amount of EUR 2.0m. The amount was recognized in equity by reducing the amount within the share-based payment reserve.

In addition, a new equity settled commitment package was agreed with eligible employees in 2018. Expenses of EUR 3.7m were recognized in the 2018 financial statements.

Total share-based compensation calculation resulted in an expense of EUR 8.4m in 2018 for continuing operations (2017: EUR 10.8m), thereof EUR 0.9m income recorded in fulfilment expenses (2017: EUR 0.8m expenses) and EUR 9.3m expense recorded in general and administration expenses (2017: EUR 10.0m). Expenses of EUR 0.3m for 2018 are included in the result for the period from discontinued operations after taxes (2017: EUR 0.2m).

A reconciliation of share-based compensation expenses in the balance sheet, income statement and statement of changes in equity is shown in the following table.

RECONCILIATION OF SHARE-BASED COMPENSATION FOR CONTINUING AND DISCONTINUED OPERATIONS

EUR m	January 1 – December 31, 2018	January 1 – December 31, 2017
Expenses from equity-settled share-based compensation related to continuing operations	14.6	4.7
Conversion of cash-settled plans into equity-settled plans	9.7	–
Expenses from equity-settled share-based compensation related to discontinued operations	0.3	0.2
Equity-settled share-based compensation for the period recognized in equity	**24.6**	**4.9**
Equity effects not recognized in profit or loss	– 4.2	–
Total share-based payment reserve in equity	**20.4**	**4.9**
(Income) / Expenses from cash-settled share-based compensation related to continuing operations	– 0.4	6.1
Conversion of cash-settled plans into equity-settled plans	– 15.6	–
Expenses from cash-settled share-based compensation related to discontinued operations	–	–
Total cash-settled share-based compensation	**– 16.0**	**6.1**
Total share-based compensation expenses	**8.6**	**11.0**
thereof continuing operations	8.4	10.8
thereof discontinued operations	0.3	0.2

Share-based Compensation Expenses and Liabilities

In 2018, the total share-based compensation expense for continuing operations amounted to EUR 8.4m (2017: EUR 10.8m). This amount includes expenses due to equity-settled share-based payment awards of EUR 24.3m (2017: EUR 4.7m). The cancellation and remeasurement of cash-settled options as of December 31, 2018 resulted in an income of EUR 16.0m (2017: expenses of EUR 6.1m), EUR 15.6m related to the conversion from cash-settled to equity-settled in June 2018. As a result of the modification to equity-settled, the liability recognized for the cash-settled options as of December 31, 2018 amounted to EUR 1.5m and is only attributable to the IPO board bonus and the tax portion for anti-dilution options (2017: regular liabilities of EUR 15.7m). 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 EUR 1.1m (2017: EUR 15.6m). The minor remaining vested phantom options are only exercisable upon occurrence of an exit event.

Share Awards

Different plans exist within the Westwing Group, with different agreements. The most significant packages are described below:

- **Ongoing equity-settled programs 2014 – 2018 within normal course of business**
  In the years 2014 – 2018 there were several equity-settled programs granted to eligible employees within the normal course of business. They have a cliff of six or twelve months with 100 % of shares vesting after four years. Partially they have exit shares that vest the later of an IPO or four years after grant date. Strike price is either EUR 1.00 or between EUR 12.20 to EUR 34.86.

- **Commitment Package 2016**
  Another commitment package was granted in June 2016. It has a cliff of 36 months with 60 % of shares vesting after four years and 40 % of shares vesting the later of IPO or four years after grant date. Strike price is EUR 1.00. More than 60 % of the options are already vested.

- **Commitment Package 2019**
  A new commitment package was granted in August 2018. It has a cliff between twelve and 48 months, depending on the management level of the employees concerned. 50 % of shares vest after four years and 50 % of shares vest the later of IPO or four years after grant date. Strike price is EUR 19.30.

- **Issue of Anti-Dilution Shares 2018**
  New shares were issued to avoid dilution of existing programs due to the warrant conversion into equity that took place in September 2018. The new options follow the same vesting schedule as the original options. However, as the grant date was August 2018, a different fair value of the options was applied.

The tables below provide an overview of the movements in the equity-settled share-based compensation awards related to shares in the Company or the shares in the Company's subsidiaries. In 2018, a roll-up took place for all equity holders of affiliate equity where the subsidiary shares were converted to Company shares at a pre-defined ratio. The roll-up was only done for continuing operations.

In order to make the numbers comparable all numbers shown below (including 2017) are related to Company shares after they were converted from subsidiary shares and after the share split of 1:150 took place. The shares for Russia and Brazil are shown accumulated in one amount in each table, as due to the discontinuation of the operational entities the plans have not been rolled up and therefore, are not comparable to the number shown for all other programs.

Development of issued shares in the Company:

	2018	2017
Number of unvested awards outstanding at the beginning of the period	–	51,983
Granted during the period	–	2,700
Vested during the period	–	– 46,294
Forfeited during the period	–	– 8,389
Number of unvested awards outstanding at the end of the period	**–**	**–**
Number of vested awards outstanding at the beginning of the period	2,625,846	2,579,553
Vested during the period	–	46,294
Disposed discontinued operations	– 1,271,550	–
Total number of vested awards outstanding at the end of the period	**1,354,296**	**2,625,846**

Development of equity-settled share options:

	2018	2017
Number of unvested awards outstanding at the beginning of the period	798,799	1,008,149
Granted during the period	3,101,550	76,551
Forfeited during the period	– 5,400	– 70,087
Vested during the period	– 362,681	– 215,814
Cancelled during the period	– 68,550	–
Settled during the period	– 48,900	–
Disposed discontinued operations	– 161,700	–
Number of unvested awards outstanding at the end of the period	**3,253,118**	**798,799**
Number of vested awards outstanding at the beginning of the period	710,435	–
Vested during the period	362,681	–
Settled during the period	– 28,950	–
Exercised during the period	– 5,850	–
Disposed discontinued operations	– 154,950	–
Total number of vested awards outstanding at the end of the period	**883,365**	**710,435**

Development of cash-settled share options:

	2018	2017
Number of unvested awards outstanding at the beginning of the period	7,350	21,000
Granted during the period	–	0
Forfeited during the period	–	– 1,050
Vested during the period	– 7,200	– 7,200
Cancelled during the period	–	– 5,400
Number of unvested awards outstanding at the end of the period	**150**	**7,350**
Number of vested awards outstanding at the beginning of the period	368,850	361.650
Vested during the period	7,200	7,200
Cancelled during the period	– 371,100	–
Total number of vested awards outstanding at the end of the period	**4,950**	**368,850**

Share Options and Phantom Options

Share options and phantom options relating to the Company's shares or to subsidiaries' shares have been granted to eligible employees. The share options granted to eligible employees are classified as equity-settled. The phantom options were 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. In 2018, nearly all cash-settled options were cancelled and replaced by equity-settled programs.

The exercise price of the granted options is based on the market price of the shares on the date of the grant, or EUR 1.00 in some cases. The options are conditional on the employee completing four years of service (the vesting period) or partially, conditional upon being employed at the date of an exit event. Phantom options were treated similarly. Furthermore, the phantom options were only exercisable if an exit event occurs. Phantom options in place as of December 31, 2018, primarily relate to the management board IPO bonus.

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

	Weighted average exercise price		Number of options	
Share options	2018	2017	2018	2017
Outstanding as of January 1	5.46	5.61	1,509,233	1,502,769
Granted during the year	16.02	0.01	3,101,550	76,551
Forfeited during the year	5.25	2.84	– 5,400	– 70,087
Exercised during the year	0.01	–	– 5,850	–
Settled during the year	0.30	–	– 77,850	–
Cancelled during the year	0.01	–	– 68,550	–
Disposed discontinued operations	1.09	–	– 316,650	–
Outstanding as of December 31	**13.90**	**5.46**	**4,136,483**	**1,509,233**
Thereof vested	6.19	10.15	883,331	710,435

	Weighted average exercise price		Number of options	
Phantom options	2018	2017	2018	2017
Outstanding as of January 1	1.96	2.45	376,208	382,658
Granted during the year	–	–	–	–
Forfeited during the year	–	34.86	–	– 1,050
Exercised during the year	–	–	–	–
Settled during the year	–	–	–	–
Cancelled during the year	1.55	30.64	– 370,950	– 5,400
Outstanding as of December 31	**31.48**	**1.96**	**5,258**	**376,208**
Thereof vested	0.23	1.71	5,250	368,850

5,850 options were exercised in 2018 (2017: 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 option		Share options	
Grant date	Vesting date	2018	2017	2018	2017
2011	2015	0.01	1.97	4,950	42,907
2012	2016	0.01	0.01	79,500	83,192
2013	2017	0.63	0.58	57,600	63,492
2014	2018	14.97	11.55	544,650	665,476
2015	2019	23.58	2.68	9,750	145,166
2016	2020	0.10	0.08	362,100	434,100
2017	2021	0.13	0.01	58,800	74,901
2018	2022	16.28	–	3,016,200	–
		13.93	**5.46**	**4,133,550**	**1,509,233**

Phantom options		Weighted average exercise price per phantom option		Phantom options	
Grant date	Vesting date	**2018**	2017	**2018**	2017
2011	2015	0.73	0.83	286,800	328,739
2012	2016	4.47	4.47	900	5,850
2013	2017	4.47	4.47	2,100	11,850
2014	2018	13.04	13.83	13,950	14,769
2015	2019	12.69	11.88	15,750	15,000
2016	2020	–	–	–	–
2017	2021	–	–	–	–
2018	2022	–	–	–	–
		1.89	**1.96**	**319,500**	**376,208**

Fair Value of Equity-Settled Share Options and Cash-Settled Phantom Options

The fair values of the share options and phantom options granted to employees used to be measured based on the Black-Scholes option-pricing model. Expected volatility was 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. Since the listing has occurred the expected life is no longer dependent on future exit events. The fair value of the options is determined by the same underlying option-pricing model with the share price at grant date as an input factor.

The weighted average fair value for the share options granted in the 2018 financial year to be settled in equity instruments amounted to EUR 27.64 (2017: EUR 22.87) at grant date. The inputs used in the measurement of the fair values of these share options at the date of grant are summarized below:

	Company shares		Subsidiary shares	
Grant date	**2018**	2017	**2018**	2017*
Share price (EUR)	20.42 – 28.95	19.73 – 26.86	22.44	3,917
Option exercise price (EUR)	1.00 – 34.86	1.00	1.00	1.00
Volatility based on expected life	42.3 %	41.0 %	42.3 %	41.0 %
Expected life	4.0	4.0	4.0	4.0
Dividend yield	–	–	–	–
Risk-free rate	0 %	0 %	0 %	0 %
Fair value per option (EUR)	17.43 – 28.94	3.05 – 22.83	22.44	3,916

* Due to the conversion of subsidiary shares to shares of Westwing Group AG the prior-year-figures were not adjusted.

The phantom options are cash-settled. Accordingly, the fair value of the underlying shares and the fair value of the phantom options has to be determined at each reporting date. The weighted average fair value for the phantom options outstanding as of December 31, 2018, was EUR 17.43 (2017: EUR 18.64). The inputs used in the measurement of the fair values of the cash-settled phantom options at the reporting dates are summarized below:

	Subsidiary shares		Company shares	
Balance sheet date	**2018**	2017	**2018**	2017*
Share price (EUR)	–	2,896	17.43	19.73
Weighted Average Option exercise price (EUR)	–	91.00	1.00	31.00
Volatility based on expected life	–	30.4 % – 30.9 %	57.9	35.2 %
Expected life	–	0.1 – 0.5	0.25	2.0
Dividend yield	–	–	–	–
Risk-free rate	0 %	0 %	0 %	0 %
Fair value per option (EUR)	–	1,628 – 2,932	17.43	0.20 – 8.03

* Due to the conversion of subsidiary shares to shares of Westwing Group AG the prior-year-figures were not adjusted.

20. BORROWINGS

On March 23, 2018, Westwing Group GmbH (now: Westwing Group AG) and GGC EUR S.À.R.L, an affiliate of Rocket Internet SE, entered into a credit facility agreement amounting to EUR 15.0m and signed an option agreement. The option is accounted for separately, as it is independent from the credit line granted, and described in note 21. The first tranche of EUR 5.0m had to be drawn within three months after signature. It was drawn on April 19, 2018. The second tranche of EUR 5.0m was drawn in June 2018, the last one of EUR 5.0m in July 2018.

The loans have a term of three years and are due at maturity including accumulated interest.

On September 11, 2018, Westwing and Citicorp North America Inc. entered into a new loan agreement with a total amount of EUR 12.0m, which was allowed to be drawn in tranches of at least EUR 6.0m for the agreed term facility and EUR 6.0m for the revolving facility. The term of the facility is 18 months after the first drawn-down date. The nominal interest rate is 5.0 %. The term facility and a part of the revolving facility were made available to the Company for the repayment of the remaining loan from Kreos. In total EUR 10.0m were drawn and paid back fully in November 2018.

The total non-current loan amount as of December 31, 2018, was EUR 14.9m (2017: EUR 4.4m) and comprises only loans and interests related to GGC EUR S.À.R.L. In the previous year it related to Kreos.

There were no current borrowings as of December 31, 2018 (2017: EUR 7.1m). The prior-year amount related to Kreos as well.

21. DERIVATIVE FINANCIAL INSTRUMENTS AND FINANCIAL LIABILITIES AT AMORTIZED COST

In addition to the loan agreement described above, on March 23, 2018, Westwing Group GmbH (now: Westwing Group AG) and GGC EUR S.À.R.L signed a warrant agreement pursuant to which the lender was granted warrant rights enabling the lender to acquire a certain number of new shares in the Company against contribution in cash. The equity option is accounted for separately, as it is independent from the credit line granted.

The fair value of the warrant rights was recognized in March 2018 as an asset with a corresponding financial liability at EUR 1.0m based on the same method as explained in the notes for the fiscal year 2017 regarding the Kreos warrants that originated in the years 2013 and 2017. The asset amount was reduced when the loan tranches were drawn by a third each time and was zero after the third tranche. As of December 31, 2018, the warrant liability amounted to EUR 0.2m.

In April 2013, Westwing entered into a warrant agreement with Kreos in addition to a loan agreement. Upon execution, Kreos will receive equity for a price per share to be determined by Kreos, providing the nominated price is in line with the price agreed in any financing round since issue of the warrant. The warrant is recorded as a derivative financial instrument at fair value through profit or loss. The value as of December 31, 2018 decreased to EUR 0.2m (December 31, 2017: EUR 0.6m).

In parallel with the loan agreement with Kreos, Westwing entered into a warrant agreement in January 2017. Upon execution of the warrant, Kreos will receive equity from Westwing. Due to Kreos' general admission for Westwing Kreos will receive equity for a price per share to be determined by Kreos, providing the nominated price is in line with the price agreed in any financing round since issue of the warrant. The number of shares depends on the amounts of drawn tranches from the loan agreement. It increased accordingly in April and June 2017, when the tranches were drawn. The warrant is recorded as a derivative financial instrument at fair value through profit or loss.

The warrant was recognized in January 2017 at a value of EUR 0.2m and expanded in different points of time in 2017. As of December 31, 2018, the value was EUR 0.2m (December 31, 2017: EUR 0.8m).

In May 2016 Westwing entered into a financing contract granting investors options in exchange for a cash payment of EUR 24.0m. The options should be converted to Westwing shares at the time of a predefined event. The price was measured according to the entity valuation at the expected time of conversion. After initial recognition, the warrant liability was measured at amortized cost using the effective interest rate method. When using the effective interest rate method, the financial liability's amortized costs are calculated, and the interest expense is allocated over the related period. The subsequent measurement is at amortized cost considering the entity valuation updated each year.

In September 2018, the warrant liability was converted into equity. Before conversion the liability's value was EUR 40.5m (December 31, 2017 EUR 35.5m).

22. CURRENT AND NON-CURRENT LIABILITIES

Financial Liabilities

As of December 31, financial liabilities comprise of the following:

EUR m	12/31/2018	12/31/2017
Borrowings	14.9	11.5
Trade payables	24.9	28.3
Accruals	7.1	11.4
Other financial liabilities	0.7	37.1
Leasing liabilities	18.0	0.0
Total	**65.6**	**88.3**
Thereof current	34.9	48.4
Thereof non-current	30.6	39.9

Further disclosures in respect of financial assets and liabilities can be found in note 25.

Non-financial Liabilities

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

EUR m	12/31/2018	12/31/2017
Contract liabilities (prior year: customer prepayments)	7.9	11.7
Refund liabilities (prior year: return provision)	6.2	2.7
Liabilities related to employees	7.2	20.8
VAT liabilities	4.1	3.8
Tax liabilities	0.1	0.3
Other non-financial liabilities	0.5	0.3
Total	**26.0**	**39.7**
Thereof current	24.5	24.0
Thereof non-current	1.5	15.7

The refund liabilities of EUR 6.2m (2017: EUR 2.7m) are recorded in order to capture the risk of products being returned within the legal period. The liability is calculated per country at an estimated return rate. Until 2017 refund liabilities were included in the provision line in the balance sheet as a return provision. Starting from 2018 refund liabilities are presented in a separate line in balance sheet according to IFRS 15 "Revenue from contracts with customers." To add clarity we reclassified return provision into the line refund liabilites as of December 31, 2017.

The gross presentation of the refund liabilities under IFRS 15 is not reflected in the comparative figures. Refund liabilities would have been EUR 1.2m higher as of January 1, 2018 if IFRS 15 had been applied already.

Liabilities related to employees of EUR 7.2m (December 31, 2017: EUR 20.8m) include liabilities for cash settled share-based compensation of EUR 1.5m (December 31, 2017: EUR 15.7m (non-current)) as well as accruals for bonuses and severances. We refer to note 19 for further information.

23. PROVISIONS

Movements in provisions for liabilities and charges are as the following:

EUR m	Legal claims	Restoration	Other	Total
As of January 1, 2018	**0.2**	**0.2**	**0.0**	**0.5**
Provided in the year	0.0	–	0.7	0.7
Released during the year	– 0.0	–	– 0.0	– 0.0
Released in respect of disposals	– 0.1	–	0.0	– 0.1
Utilized during the year	0.0	–	– 0.2	– 0.2
Exchange differences	– 0.0	–	– 0.0	– 0.0
As of December 31, 2018	**0.1**	**0.2**	**0.6**	**0.9**

Thereof:				
Current liabilities	0.1	0.0	0.6	0.7
Non-current liabilities	0.0	0.2	0.0	0.2
As of December 31, 2018	**0.1**	**0.2**	**0.6**	**0.9**

The restoration provision relates to the obligation to reinstate the leasehold property to its former condition at the end of the lease term. The timing of the cash outflow depends on the timing of vacating the leased property, in respect of which the provision was recorded. The restoration provision primarily relates to the office in Moosacher Str. 88 in Munich. The timing of payment is uncertain.

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

The opening balance for provisions as of January 1, 2018, was adjusted in according to IFRS 15 'Revenue from contracts with customers': the return provision amounting to EUR 2.7m that was included in the provision line as of December 31, 2017, was reclassified into the line refund liabilities as of January 1, 2018.

24. FINANCIAL RISK MANAGEMENT

24.1 Financial Risk Factors

24.1.1 OVERVIEW

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

24.1.2 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 US dollar, Polish zloty, Russian ruble, Brazilian real and Swiss francs. Foreign exchange risk arises when future commercial transactions or recognized assets and liabilities are denominated in a currency that is not the entity's functional currency. As the Company sold its businesses in Russia and Brazil, major currencies with an impact on the Group's financials are US dollar, Polish zloty and Swiss franc.

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

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

EUR m	**12/31/2018**	12/31/2017
Polish zloty strengthening/(weakening) by 10 %	+ 0.1 / – 0.1	+ 0.4 / – 0.4
Swiss franc strengthening/(weakening) by 10 %	+ 0.1 / – 0.1	+ 0.0 / – 0.0
US dollar strengthening/(weakening) by	– 0.8 / + 0.8	– 0.4 / + 0.4
Total	**– 0.2 / + 0.2**	**+ 0.1 / – 0.1**

The exposure was calculated only for monetary balances denominated in currencies other than the functional currency. There is no effect on other comprehensive income as the Group does not make use of hedges.

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

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

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

EUR m	Note	12/31/2018	12/31/2017
Trade and other receivables	14		
Trade and other receivables (net)		8.2	7.4
Other financial receivables		4.7	5.3
Cash and cash equivalents	17		
Cash in hand		0.0	0.0
Bank balances		67.9	13.8
Short-term bank deposits		55.1	–
Total on-balance sheet exposure		**135.8**	**26.5**

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

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

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

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

EUR m	12/31/2018	12/31/2017
AAA	–	–
AA- to AA+	0.3	0.1
A- to A+	–	0.0
BBB- to BBB+	122.3	11.9
Lower than BBB- rated	–	1.0
Unrated	0.4	0.8
Total	**123.0**	**13.8**

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

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

As a result of the initial public offering on October 9, 2018, Westwing received gross proceeds of EUR 122.5m, which significantly reduced the liquidity risk on the mid-term.

Westwing manages liquidity to enhance shareholder value and to make sure that the Group uses capital efficiently. Westwing has invested in cash equivalents as well to ensure high flexibility regarding cash without the disadvantage of cash at banks including the usual penalty interest.

The table below shows the Group's non-derivative financial liabilities as of December 31, 2018, by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows. Debtors with credit balances and liabilities from finance lease are not considered.

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

The maturity analysis of financial liabilities as of December 31, 2018, is as follows:

EUR m	Less than 3 months	Between 3 months and 1 year	Between 1 year and 5 years	Over 5 years	Total
Liabilities					
Borrowings	–	–	19.5	–	19.5
Trade payables	24.9	–	–	–	24.9
Accruals	7.1	–	–	–	7.1
Total future payments, including future principal and interest payments	**32.0**	**–**	**19.5**	**–**	**51.5**

The financial liabilities described in note 21 are not shown in the table above as they are not cash effective.

The maturity analysis of financial liabilities as of December 31, 2017, is as follows:

EUR m	Less than 3 months	Between 3 months and 1 year	Between 1 year and 5 years	Over 5 years	Total
Liabilities					
Borrowings	1.1	6.7	4.0	–	11.8
Trade payables	28.3	–	–	–	28.3
Accruals	11.4	–	–	–	11.4
Total future payments, including future principal and interest payments	**40.9**	**6.7**	**4.0**	**–**	**51.5**

24.2 Capital Management

The Group manages its capital structure in order to finance the Group's activities and continued growth. In October 2018 the Company successfully increased its capital by an initial public offering with gross proceeds of EUR 122.5m. 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.

24.3 Fair Value Estimation

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

- **Level 1:**
  quoted (unadjusted) prices in an active market for identical assets and liabilities that the entity can access at the measurement date

- **Level 2:**
  inputs other than quoted market prices included within Level 1 that are observable for the asset and liability, either directly or indirectly

- **Level 3:**
  inputs for the assets and liabilities not based on observable market data

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

	12/31/2018				12/31/2017			
EUR m	Level 1	Level 2	Level 3	Carrying value	Level 1	Level 2	Level 3	Carrying value
Liabilities								
Other financial liabilities	–	–	–	–	–	–	–	–
Derivative financial instruments	–	0.7	–	0.7	–	–	1.4	1.4
Total liabilities	**–**	**0.7**	**–**	**0.7**	**–**	**–**	**1.4**	**1.4**

In 2018, there was a transfer between the levels of the fair value hierarchy as Westwing's shares are now listed on the Frankfurt stock exchange, providing a market price every day. Therefore, the derivative financial instruments were shifted from level 3 to level 2 as of December 31, 2018.

The three outstanding warrants under which the loan providers have the right to be provided with shares in Westwing upon the execution are included in the derivative financial instrument category. The fair value of the warrant is now calculated using the stock price as of reporting date, considering the expected volatility for the remaining term. Previously, a Black Scholes model was used, and the valuation was based on data input classified as unobservable market data (Level 3). Inputs of market data into the Black Scholes model were in line with the inputs for the valuation of share-based compensation under IFRS 2.

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.

25. 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 values.

Financial Assets – At Amortized Cost

EUR m	Note	12/31/2018	12/31/2017
Cash and cash equivalents	17	123.0	13.8
Trade and other receivables	14	13.3	12.7
Total		**136.3**	**26.5**

Financial Liabilities

		12/31/2018		
EUR m	Note	Financial liabilities at amortized cost	Financial liabilities at fair value through profit or loss	Total
Borrowings	20	14.9	–	14.9
Trade payables	22	24.9	–	24.9
Accruals	22	7.1	–	7.1
Other financial liabilities				
Derivative financial instruments	21	–	0.7	0.7
Leasing liabilities		18.0	–	18.0
Total		**64.9**	**0.7**	**65.6**

		12/31/2017		
EUR m	Note	Financial liabilities at amortized cost	Financial liabilities held-for-trading	Total
Borrowings	20	11.5	–	11.5
Trade payables	22	28.3	–	28.3
Accruals	22	11.4	–	11.4
Other financial liabilities				
Other payables		35.7	–	35.7
Derivative financial instrument	21	–	1.4	1.4
Leasing liabilities		0.0	–	0.0
Total		**86.9**	**1.4**	**88.3**

Income and Expenses From Financial Instruments

The total impact on profit and loss as a result of financial instruments for the year ended December 31, 2018, was a loss of EUR 5.5m (2017: loss of EUR 9.2m).

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

EUR m	Category	2018	2017
Interest income	At amortized cost	0.0	0.0
Interest expense	Liabilities at amortized cost	– 1.9	– 0.8
Interest expense of Investor option	Liabilities at amortized cost	– 5.0	– 7.6
Valuation of warrants	At fair value through profit or loss	1.8	– 0.5
Impairment of financial assets	At amortized cost	– 0.3	– 0.3
Total		**– 5.5**	**– 9.2**

26. MATERIAL PARTLY-OWNED SUBSIDIARIES

Financial information of subsidiaries that used to have material non-controlling interests (NCI) is provided below. As in 2018 all interest is either held by Group or completely sold, only 2017 figures are provided.

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

EUR m	12/31/2017
Accumulated balances of material non-controlling interest:	
Westwing GmbH	– 19.4
Westwing Comércio Varejista Ltda.	– 3.7
Profit (loss) allocated to material non-controlling interest:	
Westwing GmbH	– 1.5
Westwing Comércio Varejista Ltda.	0.2

No dividends were paid to non-controlling interest for either company in 2017 or 2018.

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

Summarized statement of profit or loss for the year ended December 31, 2017:

EUR m	Westwing GmbH	Westwing Comércio Varejista Ltda.
Revenue	106.0	32.2
Result for the period	– 5.5	0.7

Summarized statement of financial position as of December 31, 2017:

EUR m	Westwing GmbH	Westwing Comércio Varejista Ltda.
Cash and cash equivalents	4.1	0.3
Trade and other receivables	9.0	2.7
Inventory	8.8	1.8
Total current assets	51.2	5.3
Total non-current assets	3.5	0.6
Total current liabilities	– 108.2	– 8.3
Total non-current liabilities	– 15.7	–

Summarized cash flow information for the year ended December 31, 2017:

EUR m	Westwing GmbH	Westwing Comércio Varejista Ltda.
Operating cash flow	1.8	0.2
Investing cash flow	– 0.2	– 0.1
Financing cash flow	– 1.2	– 2.4
Net increase/(decrease) in cash and cash equivalents	**0.4**	**– 2.3**

27. INCOME TAXES

Income Taxes

Income tax benefit/(expense) for the years ended December 31, 2018 and 2017 consists of:

EUR m	**2018**	2017
Current income tax charge	– 0.0	– 0.2
Recognition of deferred tax assets	0.5	–
Income tax benefit/(expense) reported in the income statement	**0.4**	**– 0.2**

Reconciliation of the expected tax income/(expense) as the result before income tax multiplied by Germany's domestic corporate and trade tax rate for 2018 (2017) is compared to the tax expenses recognized in income statement:

EUR m	2018	2017
Result before income tax	**– 26.4**	**– 32.5**
Applicable tax rate	33 %	33 %
At domicile applicable tax rate expected tax income	8.8	10.7
Unrecognized deferred tax assets on tax losses	– 13.1	– 4.0
Effect from the use of unrecognized tax losses	6.2	1.3
Unrecognized deferred tax assets on temporary differences	– 0.8	– 4.6
Permanent differences and non-deductible expenses	– 0.5	– 3.2
Effect of different tax rate of foreign operations	– 0.1	– 0.1
Other effects	– 0.1	– 0.3
Income tax benefit/(expense) reported in the income statement	**0.4**	**– 0.2**

The effective tax rate is 1.5 % due to the loss situation at Group level and deferred tax assets being recognized only to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences and the tax losses carried forward can be utilized.

In fiscal year 2018 the distributable gains generated in previous years by the Spanish and the Italian subsidiary have been distributed to their holding companies. Due to existing tax loss carry forwards no respective tax impact arose at the level of the holding companies.

In 2019 no further dividend distributions are planned at the level of the foreign companies.

Deferred Taxes

The Group's deferred taxes relate to the following:

Negative figures relate to deferred tax liabilities, whereas positive figures relate to deferred tax assets.

	Consolidated statement of financial position		Consolidated income statement	
EUR m	12/31/2018	12/31/2017	2018	2017
Software	– 2.9	– 1.5	– 1.4	0.4
Inventories	0.0	0.0	0.0	0.0
Receivables	0.0	0.0	0.0	0.0
Provisions/(liabilities)	– 0.3	0.2	– 0.5	0.0
Stock options	0.0	1.3	– 1.3	– 0.4
Tax loss carry-forwards	3.7	0.0	3.7	0,0
Deferred taxes income/(expense)	–	–	**0.5**	–
Net deferred tax assets / (liabilities)	**0.5**	–		
Reflected in the statement of financial position as follows:				
Deferred tax liabilities	– 3.2	–		
Deferred tax assets	3.7	0.0		
Deferred tax assets, net	**0.5**	–		

The Group offsets tax assets and liabilities if they relate to income taxes levied by the same tax authority on the same taxable entity and if the entity has a legally enforceable right to offset.

Deferred tax assets on temporary differences in the amount of EUR 2.7m (2017: EUR 4.5m) and on tax loss carry forwards in the amount of EUR 264m (2017: EUR 178m) have not been recognized as they may not be used with sufficient probability to offset future taxable profits. They have arisen in companies that have been loss making for some time, and there are no tax planning opportunities or other evidence of recoverability in the near future.

Generally, the valuation of the deferred taxes is carried out using the tax rates that are expected to apply to the period when the asset is realized or the liability is settled.

The Group has tax losses which arose in different jurisdictions of EUR 268m (2017: EUR 178m) that are available for offsetting against future taxable profits of the companies in which the losses arose as follows:

EUR m	2018	2017	Restrictions on tax losses carried forward
Germany	170	82	No
France	32	29	No
Italy	18	18	No
Netherlands	22	20	Yes
Poland	9	11	Yes
Spain	17	18	No
Total	**268**	**178**	

The following tax losses expire as indicated:

EUR m	2018	2017	Restrictions on tax losses carried forward
Poland	9	11	Exp. 2019 – 2023
Netherlands	22	20	Exp. 2020 – 2027
Total	**31**	**31**	

28. OTHER FINANCIAL COMMITMENTS

Operating Lease Commitments

With the early application of IFRS 16 the minimum lease payments are recognized in the leasing liabilities. The values for 2017 can be found below.

Future minimum lease payments under non-cancellable operating leases as of December 31, 2017, are as follows:

EUR m	12/31/2017
Not later than 1 year	5.0
Later than 1 year and not later than 5 years	12.1
Later than 5 years	8.4
Total	**25.4**

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

Major operating lease agreements included the lease of the headquarter office in Munich, Germany, Moosacher Strasse and the warehouse in Großbeeren, Germany. Both lease agreements were non-cancellable until their respective maturity dates.

29. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

Rocket Internet SE, Berlin, Germany is the largest shareholder of Westwing. With a share of over 20 %, Rocket Internet SE has significant influence, but it does not control Westwing, and Westwing is not fully consolidated in their group financial statements. All ventures that are controlled or jointly controlled by Rocket Internet SE and upon which Rocket Internet SE is controlling or has significant influence, are classified as related parties of the Group.

In addition, related parties comprise the Management Board and Supervisory Board members and their holdings, their children and domestic partners, as well as their relatives when living in the same household.

There were transactions to be disclosed with the following related parties in 2018: Rocket Internet SE for consulting services, GGC EUR S.Á.R.L regarding loan contracts and CATERWINGS Germany GmbH for catering services.

In addition, there were transactions with Stefan Smalla, Delia Fischer and Dr. Dr. Florian Drabeck as part of the Management Board (including them being active, paying customers at our sites and apps).

As of December 31, 2018, and 2017, the outstanding balances with such related parties were as follows:

EUR k	12/31/2018	12/31/2017
Gross amount of trade receivables	3	–
Trade and other payables	30	–

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

EUR k	2018	2017
Sales of goods and services	– 11	37
Purchases of goods and services	181	94

Reimbursement of travel expenses for all three members of the Management Board amounted to EUR 153k in 2018, partially driven by the IPO preparation.

For Delia Fischer's apartment in Munich, which is also used for marketing aspects and social media such as Instagram, expenses of EUR 10k occurred in 2018 (2017: EUR 31k). For Delia Fischer's additional apartment in Montreal (Canada), which Westwing has been and will be using heavily for marketing purposes (incl. social media campaigns, daily theme campaigns, mood picture shoots, product videos), cost for furniture and accessories in the value of EUR 38k (incl shipping) were incurred. Significant parts of the costs related to her apartment in Montreal are covered by her privately.

There were no material transactions that were not at arms' length.

In addition to the sales and purchases of goods and services described above, Westwing and GGC, a Rocket affiliate, entered into a loan and warrant agreement amounting to EUR 15.0m and signed an option agreement in 2018. The option is accounted for separately, as it is independent from the credit line granted. The value of the option is EUR 0.2m as of December 31, 2018, and has been recorded as financial liability since March 2018. The first tranche of the loan of EUR 5.0m had to be drawn within three months after signature. It was drawn on April 19, 2018. The second tranche of EUR 5.0m was drawn in June 2018, the last one of EUR 5.0m in July 2018. As of December 31, 2018, the loan liability was EUR 14.9m. Interest expenses occurred in 2018 amounted to EUR 0.9m. We refer to note 2.15.

Management Board Compensation

Management Board includes the Chief Executive Officer, the Chief Creative Officer and Chief Financial Officer.

Compensation paid to the Management Board of the Group for their services consists of contractual salary (short-term employee benefits), a performance-related compensation (short-term incentive) and equity participation in the form of shares or options (share-based payments, long-term incentive). Total short-term employee benefits of the Management Board included in employee benefit expenses for the year ended December 31, 2018, amounted to EUR 0.6m (2017: EUR 0.5m). The also short-term performance-related compensation was EUR 0.1m (2017: EUR 0.1m). Share-based payment expense for compensation the Management Board for the year ended December 31, 2018, amounted to EUR 4.2m (2017: EUR 1.6m).

This amount includes, that the board members waived parts of their options from the commitment package 2016 and received an IPO bonus structured as share-based payments. The value for these cash-settled options was EUR 1.2m as of December 31, 2018. Related income recognized in 2018 was EUR 0.4m. The final value is based on the average share price 30 trading days before March 31, 2019 and will be paid out in April 2019.

Supervisory Board Compensation

Total remuneration and out of pocket expenses incurred for the supervisory board in 2018 amounted to EUR 0.1m (2017: none).

Advisory Board Compensation

The Advisory Board of Westwing Group GmbH did not receive a separate compensation. Only an insignificant amount of travel expenses was reimbursed.

30. DIVESTMENTS

On October 29, 2018, Westwing signed a contract with Longwalk Holdings Limited and Elbrus Capital Fund II, L.P. to sell the Russian company for an immaterial amount. The sale became effective on November 6, 2018. The total result from selling and deconsolidation amounted to EUR 7.7m.

Furthermore, on October 16, 2018, Westwing received approval from the Administrative Council for Economic Defense, CADE Brazil, to conclude the sale of our Brazilian business, becoming effective October 29, 2018. The Group has already received majority of the selling price of BRL 61.2m. The total result from selling and deconsolidating the company was EUR 15.9m (note 2.3).

31. DECLARATION OF COMPLIANCE WITH THE GERMAN CORPORATE GOVERNANCE CODE

In December 2018, the Supervisory Board and Management Board issued a declaration of compliance for Westwing Group AG in accordance with Section 161 AktG ("Aktiengesetz": German Stock Corporation Act) for the first time as part of its reporting on fiscal year 2018. This is published in the Investor Relations section on Westwing Group AG's website, **https://ir.westwing.com/websites/westwing/English/5150/declaration-of-conformity.html**.

32. ELECTION TO BE EXEMPT FROM SECTION 264 (3) OF THE GERMAN COMMERCIAL CODE

According to the approval of the shareholders, the domestic subsidiaries in the legal form of limited liability Westwing GmbH and wLabels GmbH will use the exemption provisions according to Sec 264 (3) of the German Commercial Code and will thus refrain from preparing their annual financial statements for 2018 as well as mostly from preparing their notes and management report (according to the German Commercial Code).

33. SUBSIDIARIES

The Group consolidated the following direct subsidiaries as of December 31:

Name	Country of incorporation and place of business	Registered office	Proportion of ownership interests held 12/31/2018	Proportion of ownership interests held 12/31/2017
Westwing GmbH	GER	Munich	100.00	72.03
Westwing Commercial GmbH	GER	Berlin	100.00	100.00
Juwel 183. V V UG	GER	Berlin	0.00	100.00
Westwing Spain Holding UG	GER	Berlin	100.00	94.96
Westwing France Holding UG	GER	Berlin	100.00	94.56
Westwing Italy Holding UG	GER	Berlin	100.00	90.72
Westwing Netherlands Holding UG	GER	Munich	100.00	84.12
Tekcor 1. V V UG	GER	Bonn	100.00	92.76
Brillant 1256. GmbH & Co. Dritte Verwaltungs KG	GER	Berlin	88.80	88.80
Brillant 1256. GmbH	GER	Berlin	100.0	100.00
Bambino 65. V V UG	GER	Berlin	100.0	100.00
Bambino 68. V V UG	GER	Berlin	100.0	93.72
Bambino 66. V V UG	GER	Berlin	94.20	94.20
wLabels GmbH	GER	Berlin	100.0	100.00
VRB GmbH & Co. B-156 KG	GER	Berlin	90.00	90.00
VRB GmbH & Co. B-157 KG	GER	Berlin	77.30	77.30
VRB GmbH & Co. B-160 KG	GER	Berlin	97.50	97.50
VRB GmbH & Co. B-165 KG	GER	Berlin	90.00	90.00
VRB GmbH & Co. B-166 KG	GER	Berlin	90.00	90.00
VRB GmbH & Co. B-167 KG	GER	Berlin	90.00	90.00

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

Name	Country of incorporation and place business	Registered office	Proportion of ownership interests 12/31/2018	Proportion of ownership interests 12/31/2017
WW E-Services Iberia S.L.	ES	Barcelona	100.00	94.96
WW E-Services Italy S.r.l.	IT	Milan	100.00	90.72
WW E-Services France SAS	FR	Paris	100.00	94.56
Westwing Home and Living Poland S.P.Z.O.O.	PL	Warsaw	100.00	92.76
WW E-Services The Netherlands B.V.	NL	Amsterdam	100.00	84.12
Westwing Comercio Varejista Ltda.	BR	Sao Paulo	0.00	77.29
Westwing Russia OOO	RU	Moscow	0.00	88.80

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

34. EVENTS AFTER THE BALANCE SHEET DATE

There were no subsequent events after the end of the 2018 fiscal year, that have a significant impact on Westwing's future results of operations, financial position and net assets.

Munich, March 27, 2019

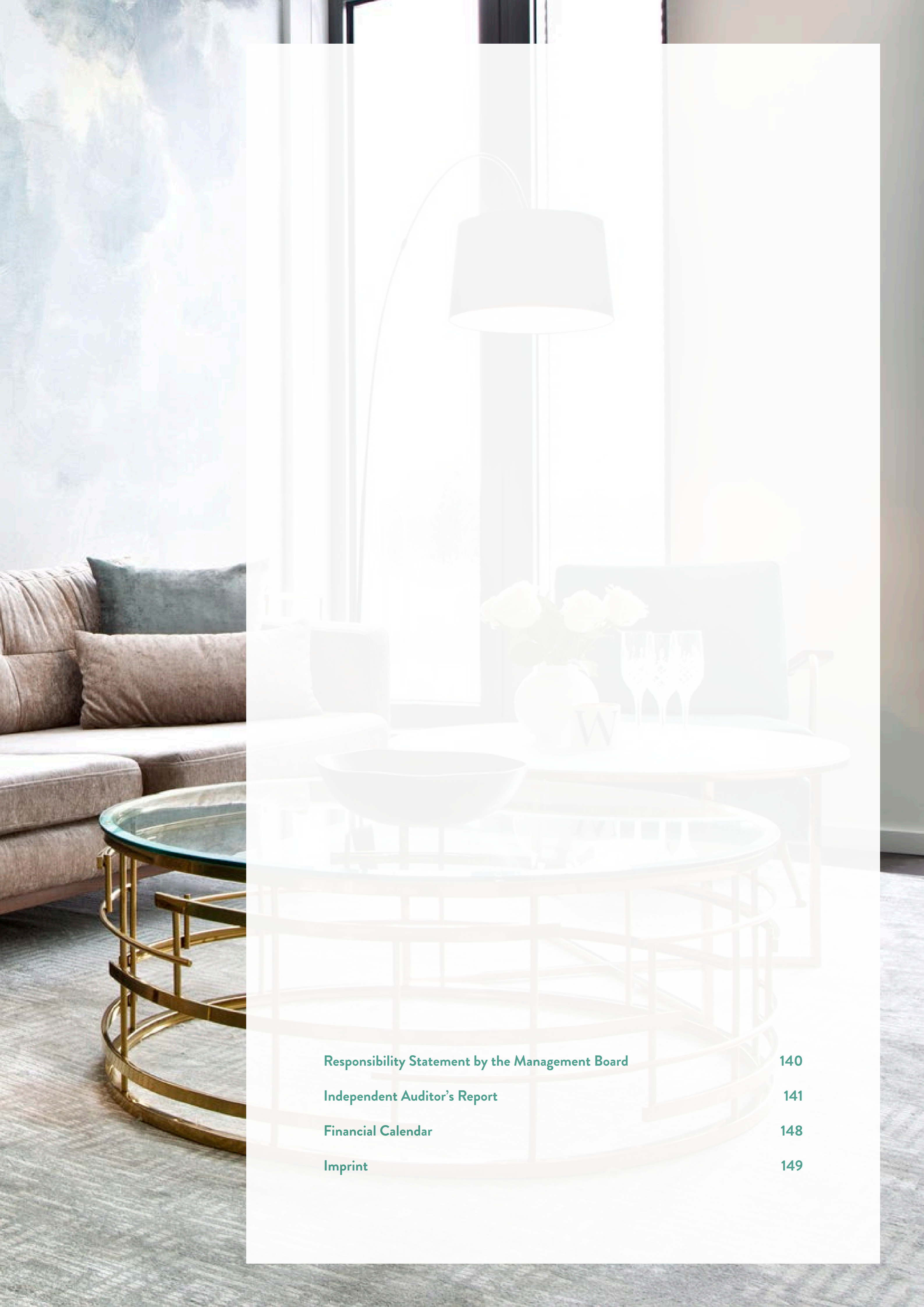
Stefan Smalla
Chief Executive Officer
Westwing Group AG

Delia Fischer
Chief Creative Officer
Westwing Group AG

Dr. Dr. Florian Drabeck
Chief Financial Officer
Westwing Group AG

04

FURTHER INFORMATION



RESPONSIBILITY STATEMENT BY THE MANAGEMENT BOARD

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the financial position, cash flows and profit or loss of the Group, and the Group management report, which has been combined with the management report for Westwing Group AG, includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Berlin, March 27, 2019

Stefan Smalla
Chief Executive Officer

Delia Fischer
Chief Creative Officer

Dr. Dr. Florian Drabeck
Chief Financial Officer

INDEPENDENT AUDITOR'S REPORT

To Westwing Group AG

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

OPINIONS

We have audited the consolidated financial statements of Westwing Group AG, Berlin, and its subsidiaries (the Group), which comprise the consolidated income statement, the consolidated statement of comprehensive income for the fiscal year from 1 January 2018 to 31 December 2018, the consolidated balance sheet as of 31 December 2018, the consolidated statement of changes in equity and the consolidated statement of cash flows for the fiscal year from 1 January 2018 to 31 December 2018, and the notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report, which is combined with the management report of the Company, of Westwing Group AG for the fiscal year from 1 January 2018 to 31 December 2018. In accordance with the German legal requirements, we have not audited the content of the group non-financial statement included in section 5 of the group management report or the group statement on corporate governance references to within section 10.3 of the group management report.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB ["Handelsgesetzbuch": German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2018, and of its financial performance for the fiscal year from 1 January 2018 to 31 December 2018, and

- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the group management report does not cover the content of the group non-financial statement or the group statement on corporate governance referred to above.

Pursuant to Sec. 322 (3) Sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

BASIS FOR THE OPINIONS

We conducted our audit of the consolidated financial statements and of the group management report in accordance with Sec. 317 HGB and the EU Audit Regulation (No 537/2014, referred to subsequently as “EU Audit Regulation”) and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the “Auditor’s responsibilities for the audit of the consolidated financial statements and of the group management report” section of our auditor’s report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfiled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Art. 10 (2) f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Art. 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the group management report.

KEY AUDIT MATTERS IN THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the fiscal year 1 January 2018 to 31 December 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters.

Below, we describe what we consider to be the key audit matters:

1. Revenue cutoff

REASONS WHY THE MATTER WAS DETERMINED TO BE A KEY AUDIT MATTER

Westwing Group AG’s business model is based on the sale of furniture and home accessories (together: “merchandise”) to private end consumers through the Group’s country-specific websites. In principle, Westwing therefore does not provide its services until merchandise is delivered, i.e., when ownership is transferred to the customer. The transaction volume is particularly high towards the end of the year and revenue generated in this period has a significant influence on the Group’s annual earnings. As revenue is not generated until merchandise has been handed over to the end consumer, merchandise that has already been dispatched but not yet delivered to the customer does not constitute revenue.

Due to the high transaction volume of the sale of merchandise, the risk of fictitious revenue and the uncertain estimate of delivery times, we consider the recognition of revenue from the delivery of merchandise to be a key audit matter.

AUDITOR’S RESPONSE

During our audit, we examined the processes implemented by the executive directors of Westwing Group AG for revenue recognition from the order and proof of delivery through to the presentation in the consolidated financial statements based on the documentation provided to us by reviewing individual transactions. We also examined the country-specific calculations for revenue recognition, both in terms of clerical accuracy and methods used. We obtained substantial audit evidence from each country during the entire audit period to verify the average delivery times. In order to identify anomalies regarding revenue development and revenue recognition, we developed a forecast of country-specific revenue recognition from the sale of merchandise based on historical daily, weekly and monthly revenue and compared it with the revenue recognized in the current fiscal year. Furthermore, we examined the posting ledger for any additional revenue entries that were entered manually.

Moreover, as part of the substantive audit procedures, we obtained documentation (delivery slips, invoices, payment receipts) for a spot test of sales regarding the occurrence of revenue in order to determine whether the revenue recognized was based on a corresponding delivery of merchandise and whether the delivery times used for revenue recognition are valid for the entire year. In order to evaluate the assumed month-specific and country-specific revenue recognition, we also included samples from the relevant accrual period in the consolidated financial statements.

We also analyzed the interim transaction data for anomalies and in comparison to the prior year.

Our audit procedures did not lead to any reservations relating to the occurrence of revenue or to the measurement of revenue from the delivery of merchandise.

REFERENCE TO RELATED DISCLOSURES

With regard to the accounting and valuation methods applied for revenue recognition, please refer to the disclosures in section 2 Accounting policies: 2.2 New Standards, Amendments and Interpretations within IFRS 15 „Revenue from Contracts with Customers" and section 2.6 Revenue recognition and section 5 Analysis of revenue of the notes to the consolidated financial statements.

2. Capitalization of development costs for internally generated software

REASONS WHY THE MATTER WAS DETERMINED TO BE A KEY AUDIT MATTER

Westwing Group AG's software solutions are key components of its operational business processes and are developed internally due to the individualization required. The capitalization and measurement of the development costs incurred for this software are based on the estimates and assumptions by the executive directors of Westwing Group AG, which mainly pertain to the differentiation from refinements to existing software, the technical and economic feasibility as well as the amount and the period of the expected economic benefit generated from the development projects. Impairments are also recognized if the software does not meet certain expectations regarding the feasibility of the projects or if the future flow of benefits has to be reassessed.

We consider the recognition and measurement of capitalized development costs for internally generated software a key audit matter due to the many software projects in development and the volume of capitalized development costs.

AUDITOR'S RESPONSE

During our audit of the recognition and measurement of the development costs incurred for software, we verified the process implemented by the executive directors to capitalize development costs for internally generated software based on the documentation provided to us by reviewing individual capitalized projects.

We also assessed compliance with the recognition criteria defined in IAS 38 for the capitalization of development costs. In addition, we verified the Company's analyses for capitalizing the development costs of internally generated software and performed substantive audit procedures.

The substantive audit procedures included an analytical review of the list of all capitalized software development projects as well as spot tests of individual software development projects capitalized in the fiscal year in terms of the ability to recognize development costs, the existence of substantial developments compared to existing software solutions, the executive directors' assumptions in determining useful lives and in deciding when to commence amortization.

We assessed the differentiation from existing refinements in terms of the technical requirements of individual projects and carried out an evaluation with the assistance of internal IT experts. We discussed the evaluation of the economic benefit with the executive directors and examined the supporting documentation. For estimating the useful lives, we obtained an overview of all projects and discussed with the executive directors which estimates and considerations were used as a basis for the values. We then reconciled these with projects recognized in the past. Moreover, we compared the amount of capitalized development costs for significant projects with personnel expenses incurred and reconciled the supporting documentation for the hours worked on a sample basis. To identify indications of a potential impairment requirement pertaining to existing development projects, we interviewed the executive directors and employees responsible and analyzed the age structure of projects in development as well as project-related progress reports.

Our audit procedures did not lead to any reservations regarding the recognition and measurement of capitalized development projects for internally generated software.

REFERENCE TO RELATED DISCLOSURES

With regard to the accounting and valuation methods applied for the capitalization of development costs for internally generated software, we refer to the disclosures of the Company in section 2 Accounting policies: 2.9.2 Internally generated software and section 13 Intangible assets of the notes to the consolidated financial statements.

OTHER INFORMATION

The supervisory board is responsible for the report of the supervisory board. In all other respects, the executive directors are responsible for the other information. The other information comprises:

- the group statement on corporate governance referenced to in section 10.3 of the group management report,
- the group non-financial statement contained in section 5 of the group management report,
- the responsibility statement from the group´s executives directors in the annual report,
- the report of the supervisory board in the annual report.

Our opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the executive directors for the consolidated financial statements and the group management report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB, and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's responsibilities for the audit of the consolidated financial statements and of the group management report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sec. 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.

- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with [German] law, and the view of the Company's position it provides.

- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other legal and regulatory requirements

FURTHER INFORMATION PURSUANT TO ART. 10 OF THE EU AUDIT REGULATION

We were elected as group auditor by the annual general meeting on 7 August 2018. We were engaged by the supervisory board on 7 November 2018. We have been the group auditor of Westwing Group Ag without interruption since fiscal year 2012.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Art. 11 of the EU Audit Regulation (long-form audit report).

German Public Auditor responsible for the engagement

The German Public Auditor responsible for the engagement is Martin Dahmen.

Munich, 27 March 2019

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Dahmen
Wirtschaftsprüfer
[German Public Auditor]

Grünewald
Wirtschaftsprüferin
[German Public Auditor]

FINANCIAL CALENDAR

MAY 7, 2019
Publication of first quarter results 2019

MAY 23, 2019
Annual General Meeting 2019

AUGUST 13, 2019
Publication of half-year report 2019

NOVEMBER 7, 2019
Publication of third quarter results 2019

IMPRINT

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DISCLAIMER

Certain statements in this communication may constitute forward looking statements. These statements are based on assumptions that are believed to be reasonable at the time they are made, and are subject to significant risks and uncertainties. You should not rely on these forward-looking statements as predictions of future events and we undertake no obligation to update or revise these statements. Our actual results may differ materially and adversely from any forward-looking statements discussed in these statements due to a number of factors, including without limitation, risks from macroeconomic developments, external fraud, inefficient processes at fulfilment centers, inaccurate personnel and capacity forecasts for fulfilment centers, hazardous material / conditions in production with regard to private labels, lack of innovation capabilities, inadequate data security, lack of market knowledge, risk of strike and changes in competition levels.