ANNUAL REPORT **2016**

windeln.de

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SERVICE

WINDELN.DE GROUP AT A GLANCE

Performance Indicators	2016	2015	Change
Site Visits	93,988,828	51,724,145	42,264,683
Mobile Visit Share (in % of Site Visits)	63.4%	55.4%	8.0pp
Mobile Orders (in % of Number of Orders)	45.5%	39.3%	6.2pp
Active Customers	1,065,089	859,483	205,606
Number of Orders	2,336,533	1,803,428	533,105
Average number of Orders per Active Customer	2.19	2.37	-0.18
Share of Repeat Customer Orders (in % of Number of Orders)	76.6%	77.6%	-1.0pp
Gross Order Intake (in EUR)	204,497,057	171,135,408	33,361,649
Average Order Value (in EUR)	87.52	94.89	-7.37
Returns (in % of Net merchendise value)	5.1%	4.6%	0.6pp
Marketing Cost Ratio (in % of revenues)	7.0%	6.1%	0.9pp
Adjusted Fulfilment Cost Ratio (in % of revenues)	17.4%	12.6%	4.8pp
Adjusted Other SG&A Expenses (in % of revenues)	16.1%	13.6%	2.5pp

Earnings position			
Revenues (in kEUR)	194,756	160,994	33,762
Gross Profit (in kEUR)	51,772	42,589	9,183
Gross Profit (as % of revenues)	26.6%	26.5%	0.1pp
Operating Contribution (in kEUR)	4,616	12,567	-7,951
Operating Contribution (as % of revenues)	2.4%	7.8%	-5.4pp
Adjusted EBIT (in kEUR)	-26,712	-9,329	-17,383
Adjusted EBIT (as % of revenues)	-13.7%	-5.8%	-7.9pp

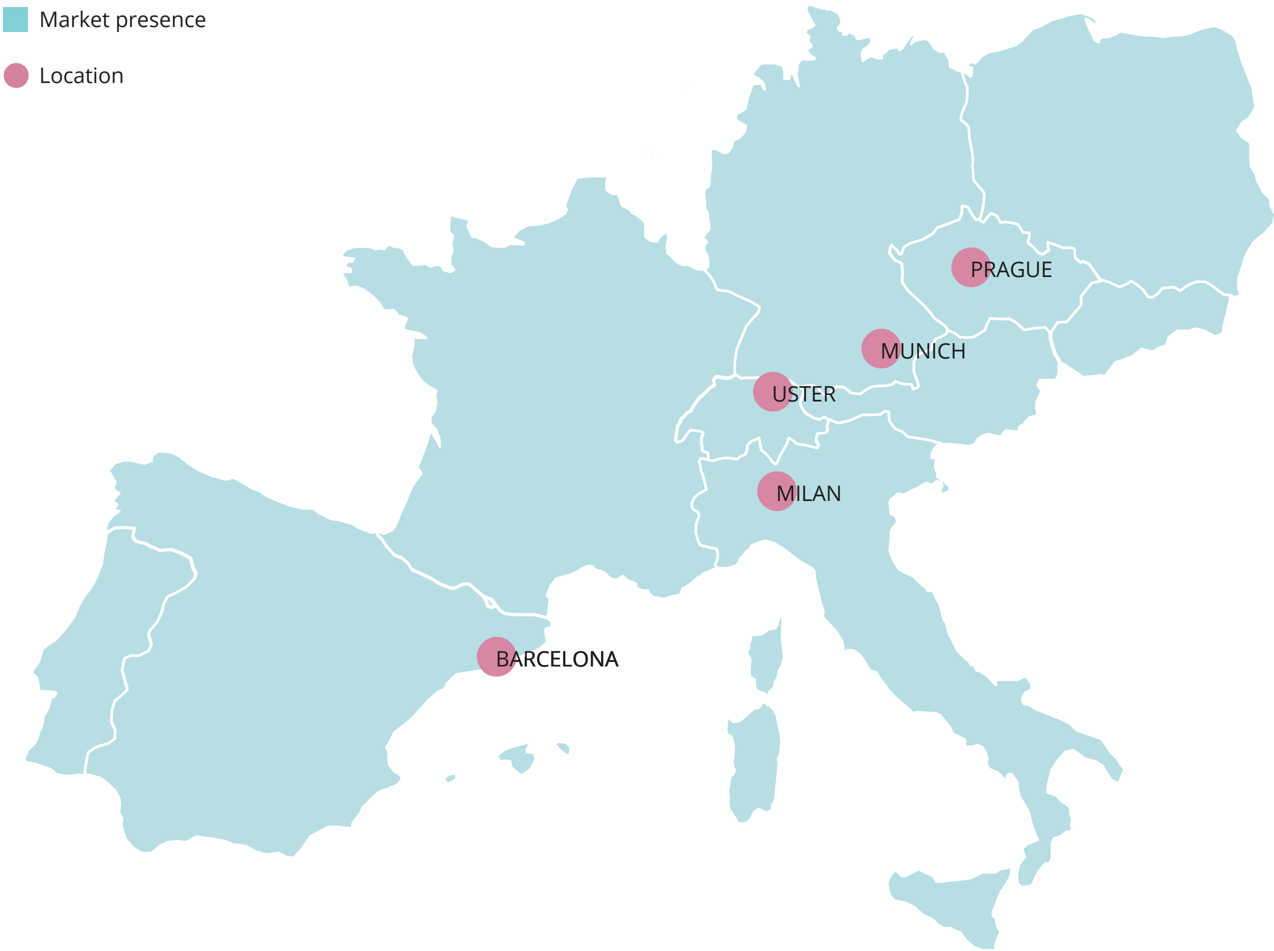
Financial position			
Cash flow from operating activities (in kEUR)	-31,224	-22,244	-8,980
Cash flow from investing activities (in kEUR)	-6,113	-16,271	10,158
Cash and cash equivalents at the end of the period (in kEUR)	51,302	88,678	-37,376
Current time deposits (in kEUR)	1,875	-	1,875
Non-current time deposits (in kEUR)	2,500	-	2,500
Total cash and time deposits	55,677	88,678	-33,001

Other			
Basic earnings per share (in EUR)	-1.60	-1.23	-0.37
Diluted earnings per share (in EUR)	-1.42	-1.18	-0.24

pp = percentage points

All performance indicators as well as the section earnings position include amounts from continuing operations only.

EUROPEAN MARKET PRESENCE AND LOCATIONS



The location Sibiu, Romania, is not presented.

windeln.de windeln.ch bebitus Nakiki feedo pannolini.it

Short profile windeln.de

Since the foundation in 2010, windeln.de has become a leading online retailer for baby, toddler and children's products with a presence in ten European countries. The Company also operates a successful e-commerce business with products for babies and toddlers for customers in China.

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

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

windeln.de currently has more than 500 employees in Germany and abroad. The Company has been listed in the Prime Standard of the Frankfurt Stock Exchange since May 6, 2015.

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

OUR CUSTOMERS

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

OUR MARKET

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

OUR GROUP

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

TO THE SHAREHOLDERS

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

LETTER FROM THE MANAGEMENT BOARD

Dear Ladies and Gentlemen, Dear Shareholders,

2016 was a challenging year for our young company. To be clear: we were not satisfied. New regulations for our cross-border e-commerce business to China and the introduction of the new ERP system significantly impacted our business development. Due to the closure of our Shopping Club, we had to lay off employees, which was not easy for us. However, in the financial year 2016, we also defined, initiated and partially already implemented numerous measures to foster our growth and profitability development. In addition, we have specifically invested in the areas of IT and product management to improve the shopping experience for our customers. After a difficult 2016, we are convinced that the right measures have been started and are confident regarding the coming years.

In the summer of 2016, we announced a transparent overview of our strategy and concrete measures for a customer-focused streamlining of business activities, improvement of operational processes and cost reductions (STAR program). windeln.de is continuously and with the highest priority working on the implementation of the announced measures. The progress of every single project is monitored on a regular basis using project portfolio tracking:

- The exit of the Shopping Clubs operations has been completed in 2016 and the relaunch of the brand Nakiki has been expedited;
- The reduction of the number of suppliers and products in the German Shop has been completed;
- An external service provider for the handling of customer services was selected end of 2016. The external service provider is already handling parts of the customer requests;
- First systems have been implemented at Feedo Group and Bebitus. The roll out of further important systems (e.g. ERP system) is planned in 2017;
- The optimization and automatization of several processes has been completed, e.g. ticketing system for customer requests and semi-automatic processing of incoming invoices;
- The optimization of logistics and transportation (especially the movement of the central warehouse) started as project phase;

- Sales via Tmall started successfully and our Chinese webshop has been relaunched to optimize our business for Chinese customers;
- The management has been strengthened by the addition of Jürgen Vedie as a member of the management board and COO. We are pleased to have gained a competent, fourth member of the management board.

The conversion of our legal form from a German stock corporation (AG) to a European stock corporation (SE) on August 31, 2016 is supposed to underline our leading position as an online retailer for baby and children products on the European market as well as to support our international focus.

At the beginning of April 2016, we introduced a new ERP system. The migration of the ERP system to Microsoft Dynamics AX forms the basis for improved operational performance and scalability. The conversion led to temporary negative effects as it involved delays in processing returns and payments as well as inventories. In the meantime, however, we have resolved these difficulties and see that many processes improved. This is especially important for customer satisfaction and is the basis for further growth.

The Chinese government has introduced a change in import rules and customs in April 2016 which has temporarily caused uncertainty among our Chinese customers. However, windeln.de deliveries to China are basically not affected except a moderate customs increase. The new regulations are particularly aimed at reducing uncontrolled deliveries of goods from unauthorized traders to China and taxing them. All in all, we see additional potential for our Chinese business in the medium term.

On April 6 2016, we founded Cunina GmbH in order to strengthen our private label business. With FORMILA plus, Max & Lilly, Dimboworld and Avani, we have launched numerous private label brands in the food and consumer goods sector (including textile) and see enormous potential here.

In 2016, we could clearly increase revenues. We achieved revenues amounting to EUR 194,756k, corresponding to an increase of 21% compared to 2015 (EUR 160,994k). Especially the launch of the webshop pannolini.it in May 2015, the acquisitions of Feedo Group and Bebitus in H2 2015, the relaunch of nakiki.de as a ready to ship shop and the Tmall Global shop opened in July 2016 contributed to the revenue growth. Overall, the number of orders as well as the number of active customers who placed at least one order in the past 12 months increased compared to prior year. The number of customers who placed at least one order in the past 12 months, amounts to 1,065 thousand and was therefore by 206 thousand higher than in 2015 (continuing operations only).

The margin (gross profit as % of revenues) slightly increased by 0.1pp to 26.6% in 2016 despite the full consolidation of the acquisitions of Feedo Group and Bebitus as well as the launch of the Italian webshop pannolini.it in 2015. Compared to the group's other divisions, the margin of these operations is lower as growth and the share of consumable products is higher but will be expanded gradually. The adjusted EBIT margin was -13.7%.

The management regrets that the financial year 2016 has led to unsatisfactory financial results due to the negative impact of several factors. At this point we would like to sincerely thank our employees for their great commitment in this challenging year.

We are, however, confident regarding the upcoming financial year as well as the consequent implementation of our strategy and the defined measures. We are positive that we will achieve further revenue growth and improvement of our profitability in 2017.

Munich, March 2017

Alexander Brand Konstantin Urban Jürgen Vedie Dr. Nikolaus Weinberger

Nenad Marovac, Dr. Christoph Braun, Willi Schwerdtle, Petra Schäfer and Dr. Edgar Lange

REPORT OF THE SUPERVISORY BOARD

Dear shareholders,

The financial year 2016 was eventful but not an easy year for windeln.de. Two forecast adjustments were required due to the negative impact of the ERP system's conversion and new regulations in China. Nevertheless, the revenues increased by 21% (compared to previous year 2015) to EUR 194,756k. The European share of revenues outside of Germany was increased from 8.6% to 24.3% during the same period, which illustrates our international orientation and our ambition to be the leading online retailer for baby, toddler and children products in the European market and in China.

Working with the management board

The supervisory board, which was newly constituted after change of the legal structure to an SE, carried out its duties - as prescribed by law, by the articles of incorporation, by rules of procedure and by the German Corporate Governance Code - actively and with great care in the financial year 2016. It obtained regular and in-depth reports on the intended business policy, fundamental issues surrounding the financial, investment and personnel planning, the development of the business as well as the profitability of the Group. Especially close monitoring and attention was given to the corresponding financial key performance indicators. When actual business developments deviated from plans and targets, reasons were explained in detail to the supervisory board and documents were presented which were examined by the supervisory board. In addition, the management board discussed the Group's strategic orientation with the supervisory board. The supervisory board was directly involved in all decisions of fundamental importance. Transactions requiring the approval of the supervisory board were explained by and discussed with the management board before any resolution was passed. These discussions took place at the meetings of the plenum and its committees as well as in exchange with the management board outside of meetings. The supervisory board was consulted directly and in due time on all decisions of fundamental importance to the Group. Outside of meetings, the chairperson of the supervisory board was in regular contact with the management board. Additional audit measures, such as the consultation of documents or the commissioning of certain subject experts, were not necessary.

Main topics of discussion

A total of eleven supervisory board meetings took place in financial year 2016, in the months of March, May, July, October, November and December. Each meeting was attended by all of the supervisory board members (with one exception in December when one member was not available); four of those meetings were held in conference calls.

At the meeting in March, the supervisory board approved the separate and consolidated financial statements and the respective management reports for the financial year 2015. The auditor, elected at the Annual General Meeting, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Munich, who attended the meeting as well, reported about the results of its audit in detail. Furthermore, the management board presented the plans for financial year 2016, especially regarding technology and system architecture. The management and supervisory boards discussed a further acquisition over the period. Finally, the supervisory board determined the bonus for the management board for the completed financial year.

In May at a conference call, the supervisory board discussed relevant topics for the upcoming annual general meeting, in particular the conversion of the legal form from windeln.de AG to a European stock corporation (SE) and approved the proposed resolutions for the agenda of the annual general meeting 2016. At the next meeting in May 2016, the opening of the Tmall Shop in China and further plans for private labels, especially for the infant milk “FORMILA plus”, were discussed. The supervisory board discussed the recommendations of the German Corporate Governance Codex and approved the declaration of conformity. Furthermore, the supervisory board approved the share buyback program as proposed by the management board to service the Earn Outs in connection with the acquisition of Feedo.

In two conference calls in May, the management board provided updates concerning business development in 2016. On basis of detailed consultations and conversations, Jürgen Vedie was appointed as an additional management board member of windeln.de SE.

Upon the annual general meeting’s resolution concerning the change in legal form to SE, the newly elected supervisory board held its inaugural meeting on June 17, 2016. During this meeting, the supervisory board members elected Mr. Willi Schwerdtle as chairman and Dr. Christoph Braun as his deputy chairman again. The supervisory board confirmed Mr. Brand, Mr. Urban, Dr. Weinberger and Mr. Vedie as management board. Furthermore, the supervisory board approved the rules of procedure for both the supervisory board and the management board and elected members to the supervisory board’s committees.

In the meeting in July, the supervisory board discussed the measures for program “STAR” and agreed on its implementation. Furthermore, the supervisory board discussed a capital increase of the authorized capital to fulfill existing obligations towards certain members and former members of the management in connection with the VSO-program arising from IPO.

In the meeting in October, the management board explained the current status of business and presented its plans for business development in Germany and China. The management board presented current projects in operations. Additionally, the supervisory board discussed the Group’s Q3 report.

The conference call in November dealt with the newest developments in Chinese market and again with Q3 report. The supervisory board focused on the expectations of the capital market.

The status of the central purchasing, the Asia business and the German business were the focus of the meeting in November. The progress of the implementation of the “STAR” measures was discussed as well.

In December, an informational conference call as well as an official meeting took place. Planning and budgeting for financial years 2017 and beyond were focus of those meetings.

Supervisory board committees and their work

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

During the financial year 2016, the audit committee consisted of Dr. Lange as committee chairman, Dr. Braun and Mr. Schwerdtle. The composition of the committee was confirmed after the change of the legal form to SE. In the reporting year, the audit committee had four meetings. The chairman of the audit committee also discussed audit-related topics with the auditor outside of meetings and without the attendance of the management board.

The main topics of the meeting in January 2016 were the current business development, the status of the risk management system and the state of compliance within the Group.

During the meeting in May, the key performance indicators for Q1 and statutory changes affecting the format of quarterly reporting were discussed as well as planned measures and projects in finance and controlling.

A detailed discussion of the effects of the planned "STAR" measures were the focus of the meeting in June 2016.

In November 2016, the accounting process of the Company and the effectiveness of the internal, Group-wide control and risk management system as well as its further development were discussed in detail. Furthermore, the management board presented the status of ongoing tax audits.

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

The nomination committee consisted of Mr. Schwerdtle, Dr. Braun and - until his withdrawal - Mr. Reis.

The nomination committee met once in April 2016 and discussed the candidates for the supervisory board of SE. Pursuant to a mandate given by the supervisory board, the nomination committee also discussed the approval of the management board members for the future SE, especially the appointment of Jürgen Vedie as an additional member of the management board as well as the confirmation of current management board members for the future SE. To this end, the nomination committee issued a recommendation to the full supervisory board.

Corporate Governance

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

In May 2016, the supervisory and management boards issued a joint declaration of conformity regarding the recommendations of the Government Commission pursuant to Sec. 161 German Stock Corporation Act (AktG) and made it permanently available on the website of the Group (www.corporate.windeln.de). The implementation of the German Corporate Governance Code is reported separately in this annual report.

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

Audit of the separate and consolidated financial statements 2016

During the meetings of the audit committee and the full supervisory board on March 6, 2017, the annual financial statements and audit reports, in particular the separate annual financial statement of windeln.de SE pursuant to German statutory regulations for financial year 2016 as well as the consolidated annual financial statement of the Group pursuant to International Financial

Reporting Standards (IFRS) for fiscal year 2016 as well as the respective management reports for financial year 2016 were discussed in detail. The auditor's reports, windeln.de SE's annual financial statements for the financial year 2016, the Group's annual financial statements for the financial year 2016 and the respective management reports, in each case in the version as prepared by the management board, had been submitted to the audit committee and the supervisory board in due time and were duly examined by both.

The auditor, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Munich, had audited the annual financial statements together with the bookkeeping system. There are no concerns about the independency of the auditor. The auditor has concluded that the separate financial statements of windeln.de SE and the consolidated financial statements of Group in accordance with the accounting rules and regulations present a true and fair view of the net assets, financial position, results of operations, and cash-flows of windeln.de SE and the Group. The auditor has issued the final conclusions of the audits with unqualified opinions. As part of assessing the risk management system, the auditor also concluded that the management board has taken the steps required by Sec. 91 (2) AktG to identify, at an early stage, developments jeopardizing the continuation of the Group. When the audit committee and supervisory board deliberated the separate and consolidated financial statements, representatives of the auditor were present who reported on significant findings of the audit and were available to take the supervisory board's questions.

Based on the final conclusions of the audit committee's examination and based on the supervisory board's own examination, the supervisory board concurred with the auditor's final conclusions and determined that no objections are to be raised. The supervisory board approved the separate and consolidated financial statements and the respective management reports for the financial year 2016 during its meeting on March 6, 2017. The financial statements of windeln.de SE are thus ratified.

Changes in the management and supervisory boards

As of July 1, 2016 Jürgen Vedie was appointed as a further management board member and Chief Operating Officer (COO) with the responsibility for logistics, customer service and purchasing.

All offices of the supervisory board of windeln.de SE ended with the effective date of the conversion of windeln.de AG to an European stock corporation (SE) on August 31, 2016. The first supervisory board of windeln.de SE approved the existing management board members of windeln.de AG - Konstantin Urban, Alexander Brand, Dr. Nikolaus Weinberger and Jürgen Vedie - as members of the management board of windeln.de SE.

The composition of the supervisory board of the Company has changed during financial year 2016 as well: With the effective date of the conversion to SE, the mandates of the members of the supervisory board of windeln.de AG ended. Against this backdrop, the annual general meeting on June 17, 2016 has elected Dr. Christoph Braun, Dr. Edgar Carlos Lange, Nenad Marovac, David Reis, Petra Schäfer and Willi Schwerdtle as supervisory board members of windeln.de SE. The mandate of Francesco Rigamonti ended with the effective date of the SE conversion. David Reis resigned from his position and departed from the supervisory board on August 31, 2016; his successor shall be elected by the annual general meeting 2017.

On behalf of the supervisory board, I would like to sincerely thank the management board and all the employees of windeln.de Group for their immense personal dedication and their contribution to the successful conclusion of the financial year 2016.

Munich, March 2017
On behalf of the supervisory board

Willi Schwerdtle, chairperson of the supervisory board

CORPORATE GOVERNANCE STATEMENT AND REPORT

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

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

windeln.de aims to confirm the trust placed in it by investors, financial markets, business partners, employees and the public and enhance corporate governance in the Group. The management board and supervisory board focused extensively on meeting the requirements of the German Corporate Governance Code (GCGC) in financial year 2016. The following declaration of conformity was issued in May 2016:

The Management Board and the Supervisory Board of windeln.de AG declare that windeln.de AG has, since publication of the last annual declaration of conformity in May 2015, acted in conformity with the recommendations of the "Government Commission German Corporate Governance Code" (hereinafter the "Code") with the exceptions stated and explained therein and hereafter and will in the future act in conformity with the recommendations of the Code in its version of 5 May 2015 (published by the Federal Ministry of Justice on 12 June 2015 in the official section of the Federal Gazette (Bundesanzeiger)), in each case with the following exceptions:

- No. 4.2.1 sentence 1: According to the Code's recommendations, the management board shall have a chairman or spokesman. Given the size of the Management Board with three members, the Supervisory Board and the Management Board are of the opinion that the members of the management board shall operate on an equal footing without any member performing the function of chairman or spokesman.
- Nos. 4.2.4 and 4.2.5: According to the Code's recommendations, the compensation of the members of the Management Board shall be disclosed by name, divided into fixed and variable components as well as fringe benefits. These recommendations are not complied with because the shareholders' meeting of the Company held on April 21, 2015 resolved that the compensation of the members of the Management Board shall not be disclosed by name in the annual consolidated financial statements of the Company to be prepared for the fiscal years 2015 up to (and including) 2019 in accordance with Sections 286 para. 5, 314 para. 2 sentence 2, 315a para. 1 of the German Commercial Code (HGB). For the duration of this "opt-out" resolution, the Company will abstain from including the disclosures recommended under No. 4.2.5 para. 3 of the Code in the Company's compensation report.
- No. 5.4.6 (1) sentence 2: According to the Codes recommendation exercising the chair and deputy chair positions in a supervisory board as well as the chair and membership in committees of a supervisory board shall be accounted for in the compensation. The chairmanship in the Supervisory Board is taken into account but no additional compensation is paid for the deputy chair position or any membership in committees of the Supervisory Board. Given the size of the Supervisory Board as such and of its committees, the Management Board and the Supervisory Board take the view that the current Supervisory Board compensation is sufficient.
- No. 7.1.2 sentence 4: According to the Code's recommendations, interim reports shall be made publicly accessible within 45 days of the end of each reporting period. The Company currently intends to comply with this requirement starting Q1 2017. For organizational reasons, however, the Company is unable to comply with this time limit for the ongoing fiscal year 2016 and will publish the interim financial reports for the interim periods of the fiscal year 2016 within a period of two months following the end of the relevant reporting period.

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

2. Disclosures on corporate governance practices

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

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

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

3. Working practices of the management board and supervisory board

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

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

The management board of windeln.de SE

As of December 31, 2016, the management board of windeln.de SE consisted of four management board members with equal rights. They each have their own management board function, which comprise the individual segments. As of the beginning of financial year 2016, the management board consisted of three members and has been expanded to four members by the appointment of Jürgen Vedie (responsible for the function operations) on July 1, 2016.

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

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

The supervisory board of windeln.de SE

Until the change of legal structure effective on August 31, 2016, of windeln.de AG to an European stock corporation (SE) the supervisory board was made up of the following six members, all of whom were elected by the general meeting: Mr. Willi Schwerdtle (chair), Dr. Christoph Braun (deputy chair), Dr. Edgar Carlos Lange, Mr. Nenad Marovac, Mr. David Reis and Mr. Francesco Rigamonti.

In the course of the transition into a European Company, the supervisory board was newly elected by the Annual General Meeting on June 17, 2016 with the following members: Mr. Willi Schwerdtle (chair), Dr. Christoph Braun (deputy chair), Dr. Edgar Carlos Lange, Mr. Nenad Marovac, Mr. David Reis and Mrs. Petra Schäfer. The supervisory board as a whole has excellent knowledge of the e-commerce business.

The term of the supervisory board members of windeln.de AG ended when the transition was entered in the Commercial Register on August 31, 2016. At the same time, the term of the supervisory board members of windeln.de SE begun. Mr. David Reis left the supervisory board at his own request at August 31, 2016; a replacement for the supervisory board will be elected at the next Annual General Meeting.

They all have the same terms of office that end with the 2018 annual general meeting.

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

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

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

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

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

Committees of the supervisory board as of December 31, 2016

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

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

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

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

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

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

The Company is also aiming for women to join the supervisory board and management board in the medium term and made progress by the election of Ms. Petra Schäfer as a member of the supervisory board. However, as the remaining members are currently appointed until beyond June 2017, obligations to achieve a quota greater than 0% are not realistic as of the time of this declaration.

The target quotas for women in the first and second management level have already been achieved.

5. Additional disclosures on corporate governance

Shareholders and general meeting

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

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

Systematic risk management

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

Transparency

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

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

Financial reporting and annual audit

Financial reporting is performed at group level in accordance with the International Financial Reporting Standards (IFRS) and the separate financial statements in accordance with local GAAP (HGB). Reporting follows the statutory and stock exchange obligations with the separate and consolidated financial statements as well as an interim report for the first half of the year and quarterly statements for the first and third quarter of the year. The annual report and internet presence are – in line with international standards – also available in English; the annual report and interim reports can be found on the Company website http://corporate.windeln.de. The consolidated financial statements are prepared by the management board and audited by the auditor as well as the supervisory board. The auditor was Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, appointed by the Annual General Meeting on June 17, 2016. The auditor issued a declaration of independence to prove to the supervisory board its independence. The auditor took part in the both the meetings of the audit committee and the supervisory board on March 06, 2017 to discuss the 2016 separate and consolidated financial statements; in particular, the auditor reported to the audit committee and supervisory board the results of the audit of the separate financial statements and management report of windeln.de SE as of December 31, 2016 (HGB) as well as the consolidated financial statements and group management report of windeln.de SE as of December 31, 2016 (IFRS). It was agreed with the auditor of windeln.de SE that the chair of the supervisory board would be informed without delay of any reasons for disqualification or any factors affecting impartiality if they arise during the audit, unless they are remedied immediately. Relationships to shareholders that qualify as related parties as defined by the underlying accounting provisions are explained in the consolidated financial statements.

Remuneration of the management board and the supervisory board

The basics of remuneration of members of the management board and supervisory board are explained in detail in the remuneration report. The remuneration of members of the management board is presented according to the statutory requirements, especially broken down into non-performance-based (fixed salaries and fringe benefits) and performance-based components (variable annual bonus) as well as components with long-term incentives.

The remuneration of the supervisory board was defined by the general meeting and is also presented in the remuneration report.

The remuneration report is part of the notes to the consolidated financial statements and is published in the annual financial report.

Stock option plans and securities based incentive systems

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

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

Art. 9 of the market abuse regulation ("Marktmissbrauchsverordnung"; "MAR") requires key management personnel at windeln.de SE as well as closely related parties to announce any transactions with shares in windeln.de SE or related financial instruments within three business days. In 2016, no transactions were reported to windeln.de SE.

Beyond this statutory notification requirement, the ownership of shares in the Company or related financial instruments by management board and supervisory board members should be announced if it is directly or indirectly greater than 1% of the shares issued by the Company in accordance with no. 6.2 GCGC. Management board members Alexander Brand and Konstantin Urban indirectly hold 911,922 and 1,745,862 shares respectively in windeln.de SE. The other members of the supervisory board and management board of windeln.de SE directly or indirectly hold less than 1% of the shares in the Company. The aforementioned disclosures relate to the December 31, 2016 reporting date.

SHARE OF WINDELN.DE SE

Volatile capital market environment

In 2016, global capital markets were influenced by growth concerns in Europe, the US and China, by the development of the oil price, the Brexit-referendum, the politics of the global central banks as well as by the election of the American president. Especially the economic situation in China, the drop of prices in the raw materials sector and the Brexit had a negative impact on capital markets in the first half of the year. However, they did recover in the second half after good economic data and satisfying quarterly business results were published. The concerns about a possible reduction of the bond purchases by the European Central Bank (ECB) were eased after the ECB declared in December to continue their bond repurchase program until at least the end of 2017. This, as well as the election of Donald Trump as president in the US led to rising stock market prices at the end of the year.

windeln.de share

The share of windeln.de SE has been traded on the Frankfurt Stock Exchange in the Prime Standard since May 6, 2015. On the first trading day of the past financial year, the closing price was EUR 10.59 (figures based on XETRA). The year high was reached at EUR 10.83 at the beginning of the second quarter on April 20, 2016. Thereafter, the price development of the windeln.de SE share was essentially shaped by the forecast adjustments for the 2016 financial results. These adjustments were caused by regulatory changes in the cross-border e-commerce business in China and the migration to a new ERP system. The lowest share price was observed on December 22, 2016 at a price of EUR 2.81. Towards the last trading day of the year, the stock slightly recovered and closed at EUR 3.00 on December 30, 2016.

Basis data (as of December 31, 2016)

WKN	WNDL11
ISIN	DE000WNDL110
Stock exchange abbreviation	WDL-DE
Industry	E-Commerce
Trading segment	Regulated market (Prime Standard)
Initial listing	May 6, 2015
Type of share	No-par value bearer shares
Number of shares as of January 1, 2016	25,745,826
Number of shares as of December 31, 2016	26,317,970
Share price as of January 4, 2016	EUR 10.59
High for the period on April 4, 2016*	EUR 10.83
Low for the period on December 22, 2016*	EUR 2.81
Share price as of December 31, 2016*	EUR 3.00

* XETRA-Closing price

Research Analysts

Institute	Analyst
Goldman Sachs Group, Inc.	Carl Hazeley
Equinet Bank AG	Mark Josefson
Montega AG	Timo Buss
Bankhaus Lampe KG	Christoph Schlienkamp
Deutsche Bank AG	Benjamin Kohnke
Commerzbank AG	Andreas Riemann
Merrill Lynch International	John King

Capital measures and market capitalization

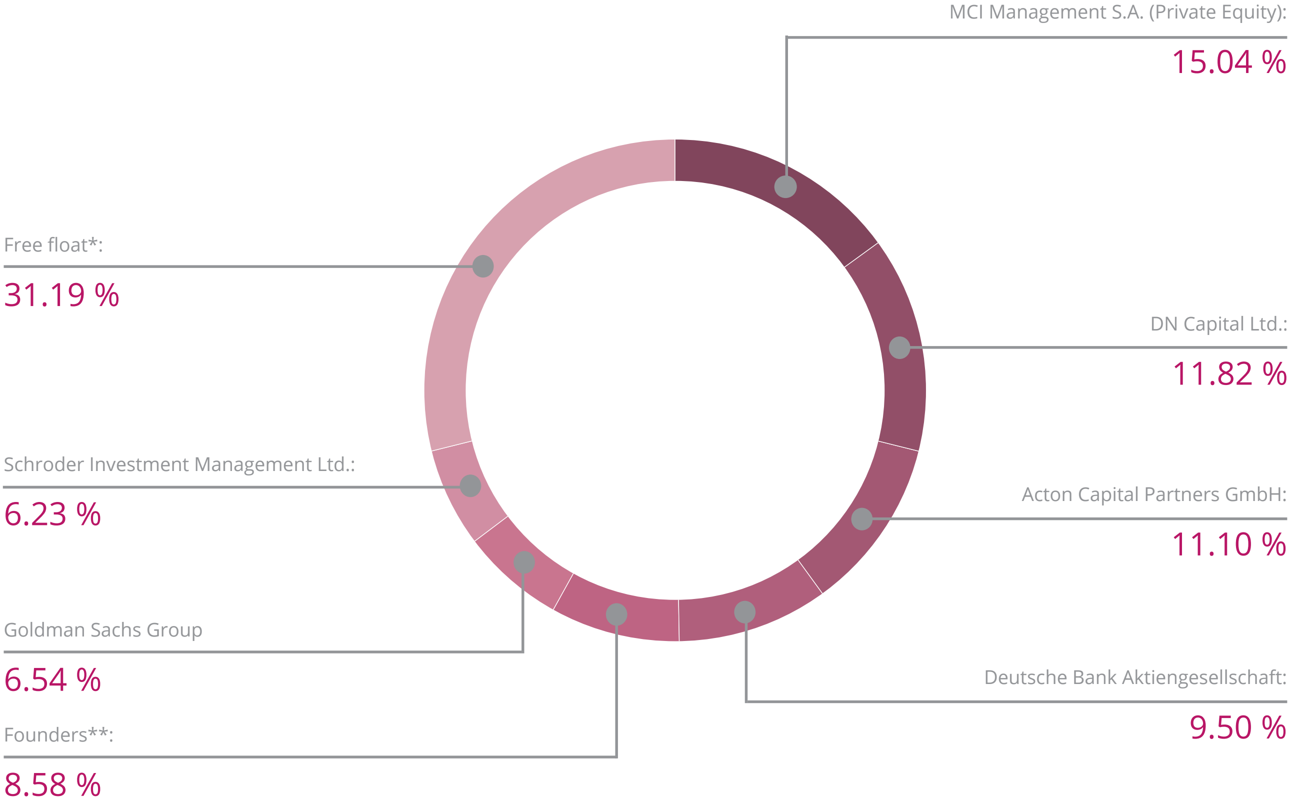
The number of shares of windeln.de SE amounted to 25,745,826 shares at the start of the year 2016.

With entry in the commercial register dated February 4, 2016, the capital stock of the windeln.de SE was increased by a further EUR 537,410.00 to EUR 26,283,236.00; the issue of the shares is attributable to the exercise of stock options.

On October 26, 2016, another capital increase was entered in the commercial register, this time by EUR 34,734.00 to a total of EUR 26,317,970.00; the capital increase is attributable to the exercise of stock options as well.

At the basis of 26,317,970 shares, the market capitalization of windeln.de SE amounted to EUR 79.0 million on December 31, 2016.

Shareholder structure and free float



As of December 31, 2016
Disclaimer: The shareholder structure pictured above is based on the published voting rights announcements and company information. windeln.de SE assumes no responsibility for the correctness, completeness or currentness of the figures.

** Free float stands at 31.19% according to the definition of Deutsche Börse*
*** Aggregate shareholding of the founders*

Investor relations activities

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

Last year, there was a regular exchange between investors and the management in the context of roadshows, capital market conferences, individual meetings and numerous telephone conferences. The investor meetings carried out in 2016 led the management to Frankfurt, Hamburg, London, Munich, Shanghai and Stuttgart. windeln.de also participated in numerous investor conferences: Montega Sector Conference, Oddo Seydler Small & Mid Cap Conference, Jefferies New York German Digital Event, Bank of America Internet & Fintech Conference, Goldman Sachs European Mid Cap Symposium, dbAcces German, Swiss & Austrian Conference, Barclays Internet Day, Commerzbank Sector Conference, 5th German Corporate Conference, Baader Conference and Equity Forum of Deutsche Börse. Also in September 2016, research analysts had the opportunity to better get to know windeln.de at a capital markets day in the Company's headquarter in Munich. On the occasion of the publication of annual and quarterly results, telephone conferences and webcasts were held for shareholders, research analysts and other capital market participants. The corresponding presentations and recordings are available on the Company's website in the Investor Relations section.

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

Financial calendar

Publication of full year 2016 results:	March 15, 2017
Publication of first quarter results 2017:	May 09, 2017
Annual General Meeting 2017:	June 02, 2017
Publication of half year results 2017:	August 09, 2017
Publication of nine months results 2017:	November 14, 2017

Investor Relations Contact

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

GROUP MANAGEMENT REPORT AS OF DECEMBER 31, 2016

1. FUNDAMENTAL INFORMATION ABOUT THE GROUP

1.1. Group business model

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

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

windeln.de also serves customers in China through its website "windeln.de". In December 2016, a new shop called "windeln.com.cn" was launched for Chinese customers. Furthermore, through a flagship-store, the Group has been present on the Chinese online platform Tmall Global ("windelnde.tmall.hk") since July 2016.

windeln.de serves its customers from five warehouses (Großbeeren near Berlin/Germany; Uster/Switzerland; Prague/Czech Republic; Barcelona/Spain; Milan/Italy). This fulfilment network offers the possibility to serve all markets efficiently. During several "promotion days" by Tmall (e.g. the so-called singles day), the Group served customers from a temporary external warehouse in China, in order to benefit from shorter delivery times and lower shipping costs. Furthermore, the Group runs a retail shop in Grünwald near Munich (Germany) as well as a showroom in Uster (Switzerland).

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

1.1.1. International growth

a) Europe

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

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

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

b) China

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

In order to make shopping more comfortable, the payment platform Alipay has been offered to the Chinese customers since 2013 and a Chinese version of the "windeln.de" website since 2014. It has been possible to deliver directly to China since the end of August 2015, which provides a low-cost alternative to the delivery through freight forwarders.

Another important step was the opening of the Tmall Global flagship store, the leading online platform for Chinese e-commerce. Tmall Global offers access to around 434 million Chinese consumers. A significant success on Tmall was achieved on November 11, 2016, the famous "singles day" in China. On this day, which is inspired by Black Friday offers, windeln.de generated a sales record of EUR 0.9m within 24 hours.

Since December 2016, our new Chinese webshop "windeln.com.cn" has been online on a new technology platform, that offers responsive design. Customers can see web content in high resolution on all various technical devices. This plays an important role for the above-average number of purchases that are made through mobile devices in China.

Several activities in different Chinese communities and forums as well as a Chinese customers service contribute to customer care and immediate customer communication.

In 2016, around 46% of the Group´s revenues were generated with Chinese customers.

1.1.2. Product mix

With its broad and varied selection of products, the Group offers its customers a comprehensive but carefully chosen product mix that not only covers all family needs but also understands the local characteristics of all European markets. The range of consumables, including those needed on a daily basis, such as diapers and baby food, as well as durables, such as strollers, car seats and children´s furniture, makes windeln.de a central point of contact for all purchases surrounding babies and children. The continuous enhancement of the product portfolio ensures that windeln.de also remains attractive for regular customers.

The Group has both, a group wide internationally strategic and three regionally acting purchase organizations. The vast range of products is due to the experienced product team and the maintenance of strategically close relationships to around 500 suppliers.

The Group started to expand its own brand business in the second half of 2015, to extend its offering even further. The focus of this area is on products that are not as brand sensitive with corresponding revenues and margin potential. For this purpose, the Cunina GmbH was founded which pursues the production of the brand "FORMILA plus" and distributes infant formula for babies and young children. Further private labels of the Group are "Max & Lilly", "Avani" and "Dimbo World".

1.1.3. Fulfilment/operations

The windeln.de Group currently has a central fulfilment center in Großbeeren (near Berlin, Germany) and four decentralized logistics locations in Uster (Switzerland), Prague (Czech Republic), Barcelona (Spain) and Milan (Italy). These are the basis of the efficient delivery of all customers.

Three of the locations are operated externally in cooperation with international fulfilment service providers. This has the benefit that investment costs for the construction of the centers are only incurred by fulfilment partners and that the Group's fulfilment capacities can grow quickly and efficiently along with its rapid growth.

For quick and low-cost delivery to China, windeln.de has also offered the option of direct delivery to China via the fulfilment center in Großbeeren since August 2015. This leads to a significant reduction of delivery times, increasing the competitiveness of the company. The delivery costs decreased compared to the delivery through a forwarding company and products could be delivered VAT-free.

Even though the logistics are outsourced, the essential processes of the fulfilment are controlled by the Group companies and therefore represent a substantial know-how of the Group. The Group companies have their own teams to coordinate and develop procurement and distribution structures. Optimized flow of goods, packaging efficiency and quality as well as speed of delivery represent decisive factors for the improvement of cost efficiency and for the maximization of customer satisfaction.

Taking effect on July 1, 2016, windeln.de SE has extended its top management by a fourth management board member, Jürgen Vedie. As Chief Operation Officer (COO), he is responsible for the areas of logistics, purchasing and customer service. Before his activity at windeln.de SE, he worked in the same position for a leading international e-commerce company for several years and has excellent experience in the international e-commerce environment.

The Group’s return rate of products is very low compared to other online retailers. In 2016, the average return rate was approx. 5.1%. This is mainly due to the baby and children’s product category. Products purchased for daily use, such as diapers and food, are very unlikely to be returned. The decision to purchase durables such as strollers and children´s car seats is generally made before the order is placed, meaning that these also only have a very low number of returns.

The multilingual customer service team, which is aligned towards the international customer base, provides customers with expert advice and a free point of contact for matters relating to orders at “windeln.de”, “windeln.ch”, “pannolini.it” and “windeln.com.cn”. Feedo and Bebitus also operate a multilingual free customer service.

In order to optimally position itself in international markets, windeln.de also offers its customers international as well as various local payment methods such as Alipay in China or cash on delivery in Italy. A constant and successive development of payment methods is an elementary component concerning repurchase rates and customer satisfaction.

Supply chain management is supported by internally developed, statistical and model-based revenue forecasts allowing for the high rate of repurchases. Using this models, the required purchasing volume is calculated on the basis of the daily revenue from the last six months, the replenishment time of products, marketing plans and former out-of-stock periods for all articles in stock. The precise forecasts allow the number of purchased and stored articles to be significantly reduced, keeping inventories low.

1.1.4. Technology infrastructure

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

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

windeln.de maintains advanced systems to capture large data volumes on customers’ browsing and shopping behavior. Analyzing this data makes it possible to satisfy customer requirements on an even better scale, e.g. by making personalized suggestions based on the age of the child

The rapid development of mobile commerce offers great potential for the Group. In the financial year 2016, around 63% of website traffic was generated from mobile devices. Mobile orders make up 46% of total orders. The Group is constantly working on improving its mobile offering on websites and apps.

The internally developed “adaptive responsive” technology was introduced for the pannolini.it webshop in mid 2015. This solution enables a technically seamless transition between the desktop and mobile website with an appealing design. This technology will also be rolled out to other shops of windeln.de SE. A mobile shopping offering was also developed for customers in China for the first time in 2015, helping windeln.de to further secure its competitive position in the Chinese market.

In November 2015, the Romanian subsidiary windeln.ro labs SRL was founded. The company is responsible for parts of the IT-development for windeln.de’s webshops and other internally used IT-applications.

In April 2016, windeln.de SE implemented the new ERP system Microsoft Dynamics AX.

1.1.5. Marketing and customer acquisition

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

The business model of windeln.de relies upon the one-time acquisition of customers who are inspired by the wide range of products to visit and shop at windeln.de’s website several times over a prolonged period of time and thus become regular customers of the Group.

Generally, the most effective form of marketing is to continuously improve the customer experience, as satisfied customers not only make repeat purchases at windeln.de, but also recommend the websites to friends and family members. These “word-of-mouth” recommendations are supported by a loyalty and recommendation program. As a result, the share of repeat customers is 77% in 2016.

1.1.6. Employees

Our employees form the basis of the success of the Group. The dynamic and growing business environment in which windeln.de operates, calls for engaged, qualified and motivated employees. On December 31, 2016, the Group had 509 employees (456 fulltime equivalents). This number decreased by 44 employees following the closure of the Shopping Clubs with 102 terminations but has been partly offset by the growing subsidiaries (Feedo, Bebitus and the office in Romania).

windeln.de actively invests in its employees. The human resource department, which was outsourced until the end of 2015, was built up internally in 2016 to ensure maximum proximity to employees. Furthermore, several staff-related instruments and measures were implemented making the workplace more attractive to everyone. In 2016, an applicant management system was introduced to professionalize the recruiting process. The training and development program was relaunched and adapted to the employees´ needs and development expectations. The introduction of the so-called “We care”- program concerning health, nutrition and prevention topics supports this set of measures.

Different cultures, ideas, perspectives, strengths and experiences lead to best results for windeln.de. The Group is proud of the diversity of its employees: at the end of 2016, windeln.de Group wide employed people from 42 countries. Women make up 62% of the Group´s workforce. The average age of the workforce is 31 years, whereby the age of the management board clearly lies above this number.

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

One of the most important visions of the Group is to support the development of employees' skills. windeln.de has therefore decided to support its employees with its individual career goals and offer training accordingly. This includes the development of young professionals into leadership positions through professional trainings. Through the program "employees-promote-employees", a cooperation with universities and through several other initiatives, windeln.de constantly addresses potential candidates.

1.2. Group structure

1.2.1. Legal form

At the annual general meeting in June 2016, windeln.de SE decided to change its legal form from a German stock corporation (AG) into an European stock corporation (Societas Europaea; SE). The conversion officially took effect with the registration in the commercial register at the local court in Munich (Amtsgericht München) on the August 31, 2016.

1.2.2. Management and control

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

1.2.3. Group segments

For the purposes of corporate management, the windeln.de Group has been organized into the "Ready to Ship[1]" and "Flash Sales[2]" business units under the various business models and has the following reportable operating segments:

- The "German Shop" operating segment runs "windeln.de", since September 27, 2016 "nakiki.de" and since December 2016 "windeln.com.cn". These shops are operated in the "Ready to Ship" business model.
- The "International Shops" operating segment comprises "windeln.ch", "toys.ch", "kindertraum.ch", "pannolini.it", "feedo.cz", "feedo.sk", "bebitus.com", "bebitus.fr" and "bebitus.pt". The international shops are all operated in the "Ready to Ship" business model.
- Until September 27, 2016, the "Shopping Clubs" operating segment used to run the webshops "nakiki.de" and "nakiki.it" which offered their services in connection with a free membership in shopping clubs. This was operated in the "Flash Sales" business model. This business model as well as the business segment "Shopping Clubs" was discontinued in Q3 2016. The web shop "nakiki.de" was integrated into the segment "German Shop". In the newly created webshop, products for children between 0 and 6 years are offered.

1.3. Strategy and competitive position of the Group

1 This business model implies that the products -at the time of order- are located in the warehouse of the company and can therefore be delivered to the customers without a delay.
2 Flash sales are time limited offers. Generally, the products are requested from the supplier after the order of the customer was made.

1.3.1. Strategy

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

- Growth in the existing markets of windeln.de in Europe and China by expanding the customer base, enhancing the product offering and increasing the order volume per customer.
- Integration of the acquired foreign companies and improvement of operational processes in order to improve the shopping experience of our customers and the sustainable increase in profitability.
- Expansion of the regional presence to further countries in Europe through organic growth in these markets.

1.3.2. Competitive position

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

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

This success is based on the following core drivers:

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

1.4. Management system

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

For the purposes of managing the Group, earnings before interest and taxes (EBIT) are adjusted for expenses in connection with share-based compensation as well as expenses and income in connection with the IPO, with acquisitions and integration of new subsidiaries and expenses in connection with the expansion of the Group as well as for expenses for reorganization, internal restructuring measures and the ERP system change.

The management board manages at Group and segment level, with the same management system being used across all segments.

In addition to the financial performance indicators, a range of non-financial performance indicators are important to manage the Group.

- Number of active customers

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

- Average numbers of orders per active customer

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

- Average order value

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

- Repeat customer ratio

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

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

The non-financial performance indicators are managed by the management board at shop level. The management system used in the Group is – compared to the previous year – more focused on revenues and adjusted EBIT.

1.5. Research and development

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

The most important key technical development in 2016 was the migration of the ERP system of windeln.de SE to Microsoft Dynamics AX.

Moreover, the online shops "nakiki.de", "windeln.ch", "toys.ch", "kindertraum.ch" and "windeln.com.cn" were (re)launched. Central components of the new, uniform shop-architecture are the Adaptive Responsive Mobile/Desktop Solution, a platform architecture that is based on MicroService[3], and the Content Management Tools Online Shops. The MicroService initiative made it possible – based on the existing services – to quickly implement the connection to Tmall and to several successful sales-campaigns in the second half of 2016. In December 2016, the Content Management Tools were introduced with the launch of the Chinese shop. This created the possibility of the adaption and dynamization of the central online shop landing pages. Brand sites can now be created at any time without IT support. Further MicroServices cover the topics delivery times, stocks, prevention of fraud, check-out rules, products, orders, CRM, logistics and ERP connection.

The software development constitutes a structured and personnel-intensive part of the implementation of improvements to systems, development of components as well as the expansion and customization of the functionalities of the ERP system. The development teams are divided into sub-areas of the customer purchase process and work in agile, organized teams: Product, content, checkout, payment and integration services teams. A quality assurance (QA) team was built up and constantly performs regression and feature tests. Back office tools (product information system, customer care, SEA) are being developed at the location Sibiu in Romania. The ERP development takes place in a separate team. The build-and-release management is performed by the development and IT operations team. Thereby, a 100% automatization of all service and shop components was reached.

3 MicroService refers to the application development approach in which a large application is built as a federation of modular services.

In 2016, EUR 334k (2015: EUR 637k) were capitalized for development costs for the webshops, while EUR 215k (2015: EUR 144k) were spent for the development of the new ERP system.

The Group does not perform any research activities.

2. REPORT ON ECONOMIC POSITION

2.1. Development of economy as a whole

In 2016, e-commerce developed very positively in all regions relevant for windeln.de SE and is expected to continue its growth in the future[4]. The overall retail sector in Germany amounted to EUR 482.2bn in 2016 corresponding to a growth of 2.3% compared to 2015. The online retail sector amounted to total revenues of EUR 44bn in 2016 corresponding to a share of 9.1% of the whole (online and offline) sector and displays a growth rate of 10.6% compared to the previous year. In 2017, growth is expected to continue by around 10.9%[5].

Europe-wide, increasing revenues could be observed as well. The whole retail volume in the euro area increased by 1.8% in 2016[6]. The revenues of online retail are expected to reach EUR 279.6bn in 2017 and to grow by an average annual rate of 8.5% until 2021[7].

The retail turnover in China amounted to EUR 4,980bn in 2016 and shows growth of 10.4% compared to the previous year. The online retail recorded EUR 752bn. This represents growth of 26.2% compared to 2015[8].

The Group continues to see growing market opportunities for the business model with trading in products for babies, toddlers and children as a result of the consistently positive development of online retail.

The exit of the United Kingdom from the European Union ("Brexit") has no impact on the Group as windeln.de SE and windeln.de's subsidiaries have not delivered any merchandise to the United Kingdom in 2016. For the future, no business operations are planned in the United Kingdom.

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

2.2.1. German and European e-commerce market

The growth of the e-commerce market for consumables for babies and other baby and toddler products is decisive for the Group.

The turnover in the segment baby and toddler products (only e-commerce) will probably increase to EUR 2.6bn in Germany in 2017. Until 2021, the market volume is expected to amount to EUR 3.7bn[9]. The category of baby products belongs to the growth markets in the German e-commerce. The market is characterized by low cyclicality and a high degree of predictable needs. In 2015, the birth rate in Germany reached 1.5 children per woman – for the first time in 33 years[10]. Since 2012, there has been a positive development of birth rates. From the Group's perspective, the medium-term growth of the entire market for baby and children products is therefore very likely.

The online channel generally offers a good possibility to sell consumables for babies, as these products are similar to other product categories that have already been sold online for a while, such as consumer electronics, consumer equipment and fashion items. Products for babies, toddlers and children are typically branded articles, durable and bought frequently. This offers a significant opportunity to grow the online share. Demand can also be predicted to a great extent and there is a low need for individualization.

4 Statista, https://de.statista.com/outlook/243/100/e-commerce/weltweit, retrieved on 06.02.2017
5 Handelsverband Deutschland (HDE), http://einzelhandel.de/images/presse/Pressekonferenz/2017/HDE-JahrespressekonferenzCharts.pdf , retrieved on 06.02.2017
6 Eurostat, http://ec.europa.eu/eurostat/documents/2995521/7851540/4-03022017-AP-DE.pdf, retrieved on 06.02.2017
7 Statista, https://de.statista.com/outlook/243/102/e-commerce/europa#, retrieved on 06.02.2017
8 China's National Bureau of Statistics, https://www.internetretailer.com/2017/02/06/online-shopping-china-grows-262-2016, retrieved on 06.02.2017
9 Statista, https://de.statista.com/outlook/257/137/spielzeug-baby/deutschland#, retrieved on 06.02.2017
10 Statistisches Bundesamt, https://www.destatis.de/DE/ZahlenFakten/GesellschaftStaat/Bevoelkerung/Geburten/Geburten.html, retrieved on 06.02.2017

The possibility of being able to shop at any time and any place with simple home delivery also offers a considerably more comfortable shopping experience compared to traditional offline shopping.

In the financial year 2017, revenues of the sector baby and children products (only e-commerce) is expected to reach EUR 12.1bn in Europe. Until 2021, the market volume is expected to amount to EUR 16.1bn[11]. In Germany, the online share in all product categories will probably increase from 7.2% in 2015 to 9.9% in 2019, but still falling short of Great Britain and Norway[12]. The online share in other large markets like France, Spain and Italy is partly even lower but will probably increase with the same dynamic. The Group expects a growth of the e-commerce share and the online infrastructure as well as an increasing use of online offers in all parts of Europe.

2.2.2. Mobile Devices

The constant rise of the use of smartphones and tablets is one of the main reasons for the increasing penetration of online facilities in Europe. Customers are provided with a comfortable option to shop at any time and anywhere. This is a huge advantage in the sale of products for babies and toddlers. Furthermore, online marketing via mobile devices (e.g. push notifications) offers a new opportunity to increase daily interaction with customers.

2.2.3. Cross-border e-commerce market in China

windeln.de is also active in the Chinese cross-border e-commerce market. Chinese customers make purchases directly from foreign online dealers. In 2016, 15% of the Chinese population already bought online from other countries[13]. eMarketer predicts that this number will increase up to 25% in 2020. The overall volume of the Chinese cross-border e-commerce in 2016 is expected to amount to around USD 85bn.

While the population’s disposable income is constantly on the rise, the demand for high-quality foreign products, especially from Germany, increases. According to Tmall, the majority of purchases are products like cosmetics, body care as well as products for mother and child[14]. China is the largest market regarding baby and children’s products worldwide. It is expected that revenues in this region will increase to EUR 36.2bn in 2017[15].

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

With more than 17.8 million births in 2016[16] (a growth of 7.9% compared to 2015) and an increasing purchasing power, the Chinese market for baby products is geared towards growth. This trend is particularly strengthened by the end of the one-child policy in China which was announced at the end of October 2015. Experts expect between 17 and 20 million births each year until 2020.

The market is also strengthened by the fact that more and more babies are fed with milk substitutes instead of breast milk. In 2016, around 800 thousand tons of milk powder were imported in China. Until 2025, the imports are supposed to increase up to 1.2 million tons[17]. The higher demand for foreign quality products is also boosted by past scandals with local milk formula products.

The purchasing power of the middle class in China is forecasted to grow by an average annual growth rate of 8% GDP per capita between 2015 until 2020[18]. Based on these facts, the Group expects the Chinese market for baby products to keep growing considerably in the coming years.

11 Statista, https://de.statista.com/outlook/257/102/spielzeug-baby/europa, retrieved on 06.02.2017
12 eMarketer, http://www.emarketer.com/public_media/docs/eMarketer_eTailWest2016_Worldwide_ECommerce_Report.pdf, retrieved on 06.02.2017
13 eMarketer, https://www.emarketer.com/Article/China-Embraces-Cross-Border-Ecommerce/1014078, retrieved on 06.02.2017
14 Annual Report on Tmall Global Data 2016, https://jingdaily.com/tmalls-cross-border-e-commerce-sales-grow-by-30-in-china/, retrieved on 06.02.2017
15 Statista, https://de.statista.com/outlook/257/100/spielzeug-baby/weltweit#takeaway, retrieved on 06.02.2017
16 National Health and Family Planning Commission (NHFPC) statistics, http://www.bbc.com/news/world-asia-china-38714949, retrieved on 06.02.2017
17 Außenstelle des amerikanischen Landwirtschaftsministeriums (USDA) in Peking, https://www.agrarheute.com/news/milchprodukte-china-will-import-um-70-prozent-steigern, retrieved on 06.02.2017
18 International Monetary Fund, World Economic Outlook October 2016

2.3. Course of business

Legal transactions

The Annual General Meeting held on June 17, 2016, approved to change the legal structure of the Company into a European Company (Societas Europaea – SE). The change in legal structure became effective by its entry in the Commercial Register on August 31, 2016.

In the course of the transition into a European Company, the supervisory board was newly elected by the Annual General Meeting on June 17, 2016. The new supervisory board commenced its function as of August 31, 2016, the effective date of the change in legal structure. Regarding the current composition of the supervisory board, we refer to section 13.2. Supervisory board of the notes.

On June 15, 2016, windeln.de SE announced the appointment of Jürgen Vedie as an additional member of the management board. Jürgen Vedie commenced his function on July 1, 2016, and is responsible for logistics, procurement activities and customer service.

STAR program

On July 28, 2016, the management board with approval by the supervisory board announced a comprehensive set of measures for a customer-focused streamlining of business activities, improvement of operational processes and cost reductions (STAR program). windeln.de is continuously working on the implementation of the announced measures. The progress of every single project is monitored on a regular basis using project portfolio tracking:

- The exit of the Shopping Clubs operations has been completed in 2016; please refer to the next section for further information;
- The reduction of the number of suppliers and products in the German Shop for the purposes of complexity reductions and efficiency enhancements has been completed;
- An external service provider for the handling of customer services has been selected end of 2016. The external service provider is already handling parts of the customer requests;
- First systems have been implemented at the Feedo Group and Bebitus. The roll out of further crucial systems (e.g. ERP system) is planned in 2017;
- The optimization and automatization of several processes has been completed, e.g. ticketing system for customer requests and semi-automatic processing of incoming invoices;
- The optimization of logistics and transportation (especially the movement of the central warehouse) is in the project phase;
- Sales via Tmall have been introduced. For the purpose of optimization of the China business, our Chinese webshop has been relaunched; and
- The management has been strengthened by Jürgen Vedie as member of the management board and COO.

Exit of Shopping Club operations and relaunching of Nakiki brand

In connection with the STAR program, windeln.de discontinued its flash sale operations. Flash sale operations were the sole business activity of the Shopping Clubs business segment and the “Shopping Clubs” operating segment. Along with the exit of flash sale activities, the Shopping Club operations are treated as discontinued operations. The brand “Nakiki” was relaunched and serves as a ready to ship platform within the operating segment “German Shop”. On the website nakiki.de, a new shop is launched with the sale of clothing, toys and other accessories for children between 0 – 6 years as primary business activity. In connection with the exit of the business segment, 102 employees of windeln.de SE were laid off. In connection with the exit of the Shopping Clubs operations, one-time costs of EUR 2.0m occurred. With the final exit of flash sale operations by end of September 2016, the business segment qualifies as a discontinued operation under IFRS, and is therefore presented separately from continuing operations in the Group’s consolidated statement of comprehensive income. In accordance with IFRS 5, the separation in continuing and discontinued operations is also made for comparable periods.

Outloook adjustment

The group published an outlook adjustment on May 18, 2016, for the year 2016 after revenues with customers in China were significantly below expectations in April and May following changes by the Chinese government in customs and import regulations on April 8, 2016. At the time of the adjustment, windeln.de group thus expected an increase in revenues of approximately 30% year over year and an adjusted EBIT margin between -10% to -12% in 2016. The gross margin was still expected to be at least 28%.

Due to the measures of the STAR program and the abandonment of the business segment Shopping Clubs, windeln.de provided a new outlook for continuing operations only in the quarterly statement Q3 2016 with revenues between EUR 190m and EUR 200m in 2016, corresponding to a growth between 20% and 25% over the previous year, and an adjusted EBIT as percentage of revenues between -12% and -14%.

Implementation of new ERP system

windeln.de SE introduced the new ERP system Microsoft Dynamics AX beginning of April 2016 which is the basis for better operational performance and scalability. The implementation was completed in 2016 but it led to temporary negative effects on revenues and costs especially in the second quarter due to delays in returns- and payment processes as well as problems in transferring stock levels.

Development of revenues and active customers

In 2016, revenues increased by 21% from EUR 160,994k in 2015 to 194,756k in 2016 despite the implementation of the new ERP system and regulatory changes for cross-border e-commerce to China. As a consequence, there has been a slight decrease of revenues in the German Shop. This has been more than compensated by the growth in the International Shops. Especially the Feedo Group and Bebitus, both acquired in H2 2015, as well as the webshop pannolini.it, launched in 2015, contributed to the revenue growth. In addition, the sales channel has been expanded by the introduction of a Tmall shop in July 2016. Especially the “Singles Day” on November 11 and the Black Friday on November 25 led to disproportionate sales.

The number of active customers further increased in 2016. The number of customers who placed at least one order in the past 12 months came around to 1,065 thousand (prior year: 859 thousand; continuing operations only).

Cunina GmbH – Establishing of private label business

On April 6, 2016, the Cunina GmbH was founded. As a 100% subsidiary of the windeln.de Group, Cunina GmbH is building up private label business. The first private label brand for infant baby milk, Formila Plus, has been available on windeln.de since June 2016 and is especially designed for the Chinese market. Besides, there are additional non-consumable (i.a. clothes) private labels of the Group called Max&Lily, Dimboworld and Avani.

Warehouse move in Spain and Switzerland

The management of windeln.de decided to switch the external logistics partner which operates the warehouse of Bebitus in Spain in the first quarter of 2016. The warehouse relocation was completed in the first half of 2016. One-time moving costs amounted to EUR 329k.

In January, management made the decision to reduce stock in the Swiss warehouse so as to realize efficiencies from a central warehouse. The measure did not lead to significant expenses in the first half of 2016.

Review of seller guarantees

In connection with the acquisition of the Feedo Group in 2015, a review process of the issued seller guarantees was performed in January 2016. In the course of this review process, windeln.de SE and two of the sellers of the Feedo Group agreed on a compensation payment of EUR 1,050k in March 2016. windeln.de received this compensation payment in April 2016. In May 2016, windeln.de SE agreed with the three remaining sellers of the Feedo Group on a compensation of EUR 2,128k as well as on changes of the subsequent purchase price. This compensation will be deducted from the subsequent purchase prices of the years 2015 to 2018.

China business

In April 2016, the Chinese government made changes in customs and import regulations. windeln.de's shipments to China are not affected except for a moderate increase in customs. The new regulations particularly aim at reducing uncontrolled shipments of goods to China by unauthorized traders by starting to tax them. As a result, windeln.de sees additional upside potential for its Chinese business in the medium-term.

In July 2016, windeln.de SE launched a flagship store on the Chinese platform Tmall (Alibaba Group). The Group aims at offering an additional sales channel to the current customer base of windeln.de in China as well as addressing new customers. The flagship store of windeln.de offers a range of milk formula products and child car seats as well as additional baby and toddler products.

Every year on November 11, the "Singles Day" takes place on Tmall. The "Singles Day" is a campaign day similar to "Black Friday" as introduced by Amazon. In 2016, windeln.de participated in the "Singles Day" for the first time. In one day, windeln.de had record breaking revenues of EUR 0.9m.

In December 2016, the webshop windeln.com.cn has been launched for windeln.de's Chinese customers. The new webshop replaces the Chinese version of windeln.de. The webshop is running on the Group's latest technology platforms.

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

2.4.1. Results of operations

a) Consolidated income statement

			Change	
kEUR	2016	12M 2015 R	absolute in kEUR	relative in %
Continuing operations				
Revenues	194,756	160,994	33,762	21%
Cost of sales	-142,984	-118,405	-24,579	21%
Gross profit	**51,772**	**42,589**	**9,183**	**22%**
Selling and distribution expenses	-68,413	-43,117	-25,296	59%
Administrative expenses	-18,804	-23,395	4,591	-20%
Other operating income	971	5,093	-4,122	-81%
Other operating expenses	-839	-545	-294	54%
Earnings before interest and taxes (EBIT)	**-35,313**	**-19,375**	**-15,938**	**82%**
Financial income	1,043	17	1,026	>100%
Financial expenses	-179	-2,997	2,818	-94%
Financial result	**864**	**-2,980**	**3,844**	**<-100%**
Earnings before tax (EBT)	**-34,449**	**-22,355**	**-12,094**	**54%**
Income taxes	-16	5	-21	<-100%
Profit or loss from continuing operations	**-34,465**	**-22,350**	**-12,115**	**54%**
Profit or loss from discontinued operations	-7,508	-6,662	-846	13%
PROFIT OR LOSS FOR THE PERIOD	**-41,973**	**-29,012**	**-12,961**	**45%**

In 2016, the Group generated revenues of EUR 194,756k, corresponding to an increase of 21% compared to 2015 (EUR 160,994k).

The Group significantly increased its revenues. The increased revenues are mainly contributable to the launch of the webshop pannolini.it in May 2015, the acquisitions of the Feedo Group and Bebitus in the second half of 2015, the relaunch of nakiki.de as a ready to ship shop and the Tmall shop in China which has been introduced in July 2016. Revenues with German and Chinese customers (both German Shop) slightly decreased due to the implementation of a new ERP system and regulatory changes for cross-border e-commerce to China in the first half of 2016. Overall, the number of orders as well as the number of active customers who made at least one purchase at one of the Group's shops in the past twelve months increased compared to 2015.

The margin (gross profit as % of revenues) slightly increased by 0.1pp to 26.6% in 2016. The development of the margin is attributable to the full consolidation of the Feedo Group and Bebitus as well as the launch of the Italian webshop pannolini.it. Compared to the other operations of the Group, the margin of these operations is lower as growth as well as the share of consumable products with lower margins is higher. The positive margin development of the German Shop is therefore mostly compensated.

Selling and distribution expenses increased in 2016 and amount to 132.1% as a percentage of gross profit (2015: 101.2%). This increase is mainly attributable to the introduction of direct deliveries to China in the second half of 2015 and the thereby caused increase of transportation costs. In addition, so-called split deliveries increasingly occurred due to the warehouse movements as well as the gradual build-up of the warehouse in Arese.

Administrative expenses decreased in absolute amounts (2016: EUR 18,804k; 2015: EUR 23,395k). As percentage of gross profit, administrative expenses disproportionally decreased from 54.9% to 36.3% in 2016. This positive development is mainly attributable to decreasing personnel expenses in relation to the acquisition of the Feedo Group and Bebitus. Portions of the economic purchase price of these subsidiaries are considered share-based payments. In this context, EUR 5,061k were reported as personnel expenses in 2016 (2015: EUR 6,185k). In 2015, the administrative expenses furthermore included costs related to the IPO amounting to EUR 1,683k and incidental acquisition costs relating to the acquisition of the Feedo Group and Bebitus amounting to EUR 682k.

In 2016, other operating income decreased by EUR 4,122k compared to the prior year period. In 2015, other operating income included recharges of EUR 2,297k to investors from internal and external costs in connection with the IPO and an income of EUR 1,989k relating to a purchase price adjustment in connection with the acquisition of the Feedo Group. Similar income did not occur in 2016. In 2016, other operating income mainly consists of exchange rate gains of EUR 827k (2015: EUR 435k). Other operating expenses increased by EUR 294k to EUR 839k compared to 2015. In 2016, other operating expenses mainly consist of exchange rate losses (2016: EUR 809k; 2015: EUR 480k). The increased exchange rate gains and losses are attributable to an increasing number of transactions in a currency different to their respective functional currencies.

Earnings before interest and taxes (EBIT) deteriorated by 82% from EUR -19,375k to EUR -35,313k in 2016. EBIT as a percentage of revenues decreased from -12.0% to -18.1%. This development can be explained by the full year consolidation of the Feedo Group and Bebitus as well as the growth of the at this point less profitable Italian shop.

The financial result improved from EUR 2,980k expenses in 2015 to EUR 864k income in 2016. The income in 2016 mostly results from the remeasurement of derivatives (contingent considerations in connection with the acquisition of the Feedo Group and Bebitus) at fair value amounting to EUR 866k.

Losses from discontinued operations represent the loss of the business segment Shopping Clubs. After the abandonment in September 2016, the business segment is presented separately from continuing operations. The loss of the discontinued operation amounts to EUR 7,508k in 2016. (2015: EUR 6,662k). The loss incurred in 2016, includes one-time costs of EUR 2.0m recognized in connection with the abandonment of the business segment.

The loss for the period deteriorated from EUR -29,012k in 2015 to EUR -41,973k in 2016. This is primarily associated with the full year consolidation of the Feedo Group and Bebitus, the disproportionally increased selling and distribution expenses and the abandonment of the business segment Shopping Clubs.

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

Financial key performance indicators

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

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

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

For the purposes of managing the Group, earnings before interest and taxes (EBIT) are adjusted for expenses in connection with share-based compensation as well as expenses and income in connection with the IPO, with acquisitions and integration of new subsidiaries and expenses in connection with the expansion of the Group as well as for expenses for reorganization, internal restructuring measures and the ERP system change.

			Change	
kEUR	**2016**	**2015 R**	**absolute in kEUR**	**relative in %**
Earnings before interest and taxes (EBIT)	**-35,313**	**-19,375**	**-15,938**	**82%**
adjusted for the costs in connection with the IPO	-	-430	430	-100%
adjusted for costs of acquisition, integration and expansion	633	-576	1,209	<-100%
adjusted for share-based compensation	5,597	10,940	-5,343	-49%
thereof cost of sales	*17*	*5*	*12*	*>100%*
thereof selling and distribution expenses	*-7*	*296*	*-303*	*<-100%*
thereof administrative expenses	*5,587*	*10,639*	*-5,052*	*-48%*
adjusted for costs of reorganization	984	-	984	
adjusted for costs of resturcturing under corporate law	139	112	27	24%
adjusted for ERY system change	1,248	-	1,248	
Adjusted EBIT	**-26,712**	**-9,329**	**-17,383**	**>100%**

Adjusted EBIT deteriorated from EUR -9,329k in 2015 to EUR -26,712k in 2016 caused by the acquisition of the Feedo Group and Bebitus as well as the disproportionate development of the selling and distribution expenses. Adjusted EBIT as a percentage of revenues decreased from -5.8% in 2015 to - 13.7% in 2015.

As of December 31, 2015, an outlook for the revenues and the adjusted EBIT as a percentage of revenues was provided. Revenues should therefore increase by 50% in 2016. The adjusted EBIT as a percentage of revenues should be in a range between -6% and -8%. Due to regulatory changes for cross-border e-commerce to China, the outlook for both key performance indicators was adjusted in the first half of 2016. On May 18, 2016, windeln.de published an adjusted outlook. According to that, a revenue growth of 30% and an adjusted EBIT as a percentage of revenues in a range between -10% and -12% was expected.

Due to the measures of the STAR program and the abandonment of the business segment Shopping Clubs, windeln.de provided a new outlook for continuing operations only in the quarterly statement Q3 2016 with revenues between EUR 190m and EUR 200m in 2016, corresponding to a growth between 20% and 25% over the previous year, and an adjusted EBIT as percentage of revenues between -12% and -14%.

With revenues of EUR 194,756k, windeln.de accomplished revenues in the last predicted range of EUR 190m to EUR 200m. Also the adjusted EBIT as percentage of revenues of -13.7% is in the predicted range of -12% to -14%.

19 Bei allen Angaben in diesem Abschnitt handelt es sich um die fortzuführenden Geschäftsbereiche.

For the operating contribution as % of revenues, no comparison is presented as an outlook was not provided in the previous year.

Non-financial key performance indicators

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

The number of active customers increased from 859,483 as of December 31, 2015, to 1,065,089 in 2016. The increase is mainly attributable to the acquisition of the Feedo Group and Bebitus in the second half of 2015 and also the number of active customers of windeln.de increased.

The average number of order per active customers decreased by 0.18 to 2.19. This development mostly results from the negative impact of the ERP system change of windeln.de in the first half of 2016.

The average order value decreased from EUR 94.9 in 2015 to EUR 87.5 in 2016 which is mainly attributable to the acquisition of the Feedo Group and Bebitus. The average order value of these Group companies is lower than the average order value of the German parent company and shall be gradually increased in the coming years.

The repeat customer ratio of 76.62% is at a level similar as in 2015 (77.63%).

No comparison to 2015 is presented as an outlook of non-financial key performance indicators was not provided in the previous year.

c) Segment results of operations[19]

			Change	
kEUR	**2016**	**2015**	**absolute in kEUR**	**relative in %**
German Shop	138,986	140,255	-1,269	-1%
International Shops	55,870	20,739	35,131	>100%
Reconciling item to Group revenues	-100	-	-100	
Revenues from continuing operations	**194,756**	**160,994**	**33,762**	**21%**
Shopping Clubs	14,830	17,608	-2,778	-16%
Total Group revenues	**209,586**	**178,602**	**30,984**	**17%**
German Shop contribution	-2,334	4,755	-7,089	<-100%
International Shops contribution	-17,181	-12,075	-5,106	42%
Reconciling item to Group EBIT	-15,798	-12,055	-3,743	31%
EBIT from continuing operations	**-35,313**	**-19,375**	**-15,938**	**82%**
Shopping Clubs contribution	-7,506	-6,659	-847	13%
Total Group EBIT	**-42,819**	**-26,034**	**-16,785**	**64%**
German Shop contribution	-1,632	5,630	-7,262	<-100%
International Shops contribution	-11,439	-5,392	-6,047	>100%
Reconciling item to adjusted Group EBIT	-13,641	-9,567	-4,074	43%
Adjusted EBIT from continuing operations	**-26,712**	**-9,329**	**-17,383**	**>100%**

The Group mainly grew in segment International Shops. This segment achieved a revenue growth of 169% mainly attributable to the acquisition of the Feedo Group and Bebitus in the second half of 2015. The revenues of the German Shop in contrast deteriorated by 1%. This development mostly results from the ERP system change, the regulatory changes for cross-border e-commerce to China in the first half of 2016 as well as the conscious reduction of the number of offered brands and products.

In order to assess the operating performance of the segments, the Group also considers EBIT and the EBIT margin before expenses in connection with share-based compensation as well as expenses and income that are considered to be non-recurring or extraordinary in connection with the IPO, acquisitions and integrations of new subsidiaries and with the expansion strategy of the Group as well as in connection with reorganization, internal restructuring measures and the ERP system change. The calculated indicators are referred to as adjusted EBIT and adjusted EBIT margin.

The adjusted EBIT of the segment International Shops deteriorated by 112% to EUR -11,439k in 2016. This mainly results from the acquisition of the Feedo Group and Bebitus in the second half of 2015. The adjusted EBIT margin of the segment International Shops improved from -26.0% to -20.5% in the same period. The adjusted EBIT of the segment German Shop in contrast decreased from EUR 5,630k to EUR -1,632k corresponding to a decrease of the adjusted EBIT margin from 4.0% in 2015 to -1.2% in 2016. This is mainly attributable to the ERP system change, the regulatory changes for cross-border e-commerce to China in the first half of 2016 as well as the reduction of the number of offered brands and products. In addition, there has been an increase of corporate expenses in 2016 which are included in the reconciling item to the adjusted Group EBIT.

d) Regional results of operations[19]

kEUR	2016	2015 R	Change absolute in kEUR	Change relative in %
Revenues	**194,756**	**160,994**	**33,762**	**21%**
Germany, Austria, Switzerland (GSA)	54,512	54,498	14	0%
China	89,383	91,068	-1,685	-2%
Other/ rest of Europe	50,861	15,428	35,433	>100%

The Group significantly increased its revenues in the rest of Europe, achieving a revenue growth of 230%. This mainly results from the acquisition of the Feedo Group and Bebitus as well as the introduction of the Italian webshop pannolini.it. Every single webshop of rest of Europe also shows a significant growth compared to the prior year period. With revenues of EUR 54,512k, GSA remains at the same level as in prior year. This development is attributable to the ERP system change in the first half of 2016 and the reduction of brands in connection with the Star program in the second half of 2016. Compared to prior year, China shows a minor weakness with revenues of EUR 89,383k caused by regulatory changes for cross-border e-commerce to China in the first half of 2016.

2.4.2. Financial position

kEUR	2016	2015	Change absolute in kEUR	Change relative in %
Loss for the period	-41,973	-29,012	-12,961	45%
Net cash flow from operating activities	**-31,224**	**-22,244**	**-8,980**	**40%**
Net cash flow from investing activities	**-6,113**	**-16,271**	**10,158**	**-62%**
Net cash flow from financing activities	**-39**	**93,356**	**-93,395**	**-100%**
Cash and cash equivalents at the beginning of the period	88,678	33,830	54,848	>100%
Change in cash and cash equivalents	-37,376	54,841	-92,217	<-100%
Changes in cash and cash equivalents due to exchange rates and changes in valuation	0	7	-7	-100%
Cash and cash equivalents at the end of the period	**51,302**	**88,678**	**-37,376**	**-42%**

The Group generated a negative cash flow from operating activities of EUR 31,224k in 2016, partly on account of the negative contribution to earnings by the rapidly growing International Shops segment and the discontinued operation Shopping Clubs.

The cash outflow from investing activities amounts to EUR 6,113k in 2016 (prior year period: cash outflow of EUR 16,271k). The cash outflow is mainly attributable to a cash investment in time deposits of EUR 4,375k and investments in the new ERP system Microsoft Dynamics AX. These effects are partially compensated by a cash inflow due to a purchase price refund of EUR 1,050k in connection with the acquisition of the Feedo Group. In 2015, the cash flow from investing activities was attributable to the acquisition of the Feedo Group and Bebitus and the cash settled portions of the purchase prices (EUR 13,149k, of which EUR 8,050k relates to the Feedo Group and EUR 5,099k to Bebitus) as well as increased investments in the webshops.

In 2016, the cash out flow from financing activities amounts to EUR 39k in contrast to the cash inflow from financing activities of EUR 93,356k in 2015. The cash outflow in 2016 mostly results from interest payments of EUR 55k connected to finance lease and transaction costs of EUR 27k in connection with the issuance of new shares. These effects are for the most part compensated by the issuance of new shares amounting to EUR 74k. The cash inflow in 2015 mostly results from the IPO of windeln.de

The equity ratio decreased from 72.4% as of December 31, 2015, to 65.9% as of December 31, 2016. This is mainly attributable to the loss of the period in the amount of EUR 41,973k. In addition, equity-settled share-based payment awards issued in 2015 as part of the purchase price for the acquisition of the Feedo Group and Bebitus are reported in the share premium as of December 31, 2016. Due to these awards, the share premium increased by EUR 4,807k and by additional EUR 618k due to stock options issued to employees of windeln.de.

In March 2016, the credit line agreements with Commerzbank AG (EUR 5m) and DZ BANK AG Deutsche Zentral-Genossenschaftsbank (EUR 4m) have been extended by another year. The credit line agreements are secured by inventories and an assignment of receivables (blanket assignment). Both agreements include standard covenants.

The secured revolving cash credit line agreement for an unlimited time period with Deutsche Bank AG amounting to EUR 5m is unchanged. The credit line is secured by inventories and an assignment of receivables (blanket assignment).

As in prior year, none of these credit lines were utilized as of December 31, 2016.

2.4.3. Net assets

Assets kEUR	December 31, 2016	December 31, 2015 R	Change absolute in kEUR	Change relative in %
NON-CURRENT ASSETS				
Intangible assets	31,169	31,211	-42	0%
Fixed assets	865	1,334	-469	-35%
Other financial assets	3,146	914	2,232	>100%
Other non-financial assets	330	289	41	14%
Deferred tax assets	10	2	8	>100%
Total non-current assets	**35,520**	**33,750**	**1,770**	**5%**
CURRENT ASSETS				
Inventories	21,645	27,099	-5,454	-20%
Prepayments	374	1,670	-1,296	-78%
Trade receivables	2,508	2,469	39	2%
Income tax receivables	6	5	1	20%
Other financial assets	7,330	4,945	2,385	48%
Other non-financial assets	2,990	2,727	263	10%
Cash and cash equivalents	51,302	88,678	-37,376	-42%
Total current assets	**86,155**	**127,593**	**-41,438**	**-32%**
TOTAL ASSETS	**121,675**	**161,343**	**-39,668**	**-25%**

Equity and liabilities kEUR	December 31, 2016	December 31, 2015 R	Change absolute in kEUR	Change relative in %
EQUITY				
Issued capital	26,318	25,746	572	2%
Share premium	159,993	154,570	5,423	4%
Treasury shares	-370	-	-370	
Accumulated loss	-105,473	-63,500	-41,973	66%
Cumulated other comprehensive income	-233	-20	-213	>100%
Total equity	**80,235**	**116,796**	**-36,561**	**-31%**
NON-CURRENT LIABILITIES				
Defined benefit obligations and other accrued employee benefits	153	201	-48	-24%
Other provisions	86	221	-135	-61%
Financial liabilities	119	73	46	63%
Other financial liabilities	589	3,542	-2,953	-83%
Deferred tax liabilities	6,057	6,137	-80	-1%
Total non-current liabilities	**7,004**	**10,174**	**-3,170**	**-31%**
CURRENT LIABILITIES				
Other provisions	1,662	2,221	-559	-25%
Financial liabilities	64	41	23	56%
Trade payables	17,517	18,137	-620	-3%
Deferred revenues	3,317	4,352	-1,035	-24%
Income tax payables	12	9	3	33%
Other financial liabilities	8,592	6,028	2,564	43%
Other non-financial liabilities	3,272	3,585	-313	-9%
Total current liabilities	**34,436**	**34,373**	**63**	**0%**
TOTAL EQUITY AND LIABILITIES	**121,675**	**161,343**	**-39,668**	**-25%**

Non-current assets increased to EUR 35,520k as of December 31, 2016 (December 31, 2015: EUR 33,750k). The increase is mainly caused by an investment in time deposits in 2016. The part of the time deposits due in 2018 amounting to EUR 2,500k is reported in the other non-current financial assets. In contrast, fixed assets decreased by EUR 469k. This mainly results from the abandonment of the warehouse of the Shopping Clubs in Q3 2016.

Non-current assets decreased by 32% to EUR 86,155k (2015: EUR 127,593k). This development is mainly attributable to the decrease of cash and cash equivalents by EUR 37,376k, the decrease of inventories by EUR 5,454k and the decrease of prepayments by EUR 1,296k. The decrease of cash and cash equivalents mostly results from the loss of the period and the investment of cash in time deposits (EUR 4,375k). The inventories decrease in the course of a general consumption of merchandise on stock. As of December 31, 2015 inventories were disproportionally high due to an increased order volume. The reduction of prepayments results from the exit of the Shopping Club business as well as favourable renegotiations of purchasing conditions.

This effects are partially compensated by an increase of other current financial assets of EUR 2,385k. As described above, windeln.de invested in time deposits in Q4 2016 of which EUR 1,875k are reported in other current financial assets.

Compared to December 31, 2015, equity decreased by EUR 36,561k to EUR 80,235k. Please refer to the comments on the financial position for further information. Due to equity-settled share-based payment awards reported in equity share premium contrariwise increased by EUR 5,425k.

Non-current liabilities decreased by EUR 3,170k as of December 31, 2016, compared to December 31, 2015. The decrease is mainly caused by decreasing other financial liabilities. As of December 31, 2016, contingent considerations to the sellers of the Feedo Group amounting to EUR 499k (December 31, 2015: EUR 2,106) are included in other non-current financial liabilities. As of December 31, 2015, this position contained contingent consideration to the founders of Bebitus amounting to EUR 1,314k as well. In 2016, a significant part of these contingent considerations has been reclassified to other current financial liabilities.

Compared to prior year end, current liabilities increased by EUR 63k as of December 31, 2016. Other financial liabilities increase by EUR 2,564k resulting from the reclassification of contingent considerations from non-current to current liabilities. This is partially compensated by a decrease of deferred revenues by EUR 1,035k, a decrease of trade payables by EUR 620k and a decrease of other provisions by EUR 559k. Deferred revenues mainly decline to EUR 3,317k (2015: EUR 4,352k) due to the exit of the Shopping Club business as prepayments of three to five weeks prior to the delivery of the products have been usual. The decrease of merchandise on stock is reflected by the decrease of trade payables. The decline of other provisions is mainly caused by the decline of provisions for loyalty bonuses by EUR 694k to EUR 1,238k.

Overall, total equity and liabilities as of December 31, 2016, came to EUR 121,675 and decreased therefore by EUR 39,668k compared to prior year.

2.4.4. Net Overall statement

During the financial year 2016, the outlook was revised downwards. The development of revenues has nevertheless been satisfying in 2016 despite negative effects from the ERP system change and regulatory changes for cross-border e-commerce to China. The adjusted EBIT margin decreased compared to prior year, mainly attributable to the international expansion with the consolidation of the acquired companies Feedo Group and Bebitus as well as the expansion in Italy.

2.5. Other financial performance indicators[19]

	2016	2015 R	Change
Marketing cost ratio (as % of revenues)	7.0%	6.1%	0.9pp
Adjusted fulfilment cost ratio (as % of revenues)	17.4%	12.6%	4.8pp
Adjusted other SG&A costs (as % of revenues)	16.1%	13.6%	2.5pp
Operating contribution (as % of revenues)	2.4%	7.8%	-5.4pp

In the consolidated statement of profit and loss, marketing costs are recognized within selling and distribution expenses. Marketing costs mainly consist of advertising expenses, including search engine marketing, online display and other marketing channel expenses, as well as costs for the marketing tools of the Group. In 2016, the Group recognized marketing costs amounting to EUR 13,569k (2015: EUR 9,770k). We define Marketing cost ratio as marketing costs divided by revenues for the measurement period. Marketing cost ratio increased by 0.9pp to 7.0% compared to prior year.

Fulfilment costs consist of logistics and warehouse rental expenses which are recognized within selling and distribution expenses in the consolidated statement of profit and loss. Adjusted fulfilment costs exclude costs in connection with the reorganization of the Swiss and Spanish warehouses. We define Adjusted fulfilment cost ratio as adjusted fulfilment costs divided by revenues for the measurement period.

			Change	
			absolute	relative
kEUR	**2016**	**2015 R**	**in kEUR**	**in %**
Logistics	30,222	17,286	12,936	75%
Warehouse rents	3,913	2,966	947	32%
Fulfilment costs	**34,135**	**20,252**	**13,883**	**69%**
Adjustments	-303	-	-303	
Adjusted fulfilment costs	**33,832**	**20,252**	**13,580**	**67%**
Adjusted fulfilment cost ratio (as % of revenues)	**17.4%**	**12.6%**	**4.8pp**	

In 2016, the adjusted fulfilment cost ratio came to 17.4% compared 12.6% in 2015. The increase is primarily attributable to the introduction of direct delivery to China and overall higher fulfilment costs.

Other selling, general and administrative expenses (other SG&A expenses) consist of selling and distribution expenses, excluding marketing costs and fulfilment costs, and administrative expenses as well as other operating income and expenses. Adjusted other SG&A expenses exclude expenses in connection with share-based compensation as well as expenses and income in connection with the IPO, with acquisitions and integration of new subsidiaries and expenses in connection with the expansion of the Group as well as for expenses for reorganization, internal restructuring measures and ERP system change. We define Adjusted Other SG&A Expenses (in % of revenues) as adjusted other SG&A expenses divided by revenues.

kEUR	2016	2015 R	Change absolute in kEUR	Change relative in %
Selling and distribution expenses (w/o marketing and fulfilment costs)	20,709	13,095	7,614	58%
Administrative expenses	18,804	23,395	-4,591	-20%
Other operating income	-971	-5,093	4,122	-81%
Other operating expenses	839	545	294	54%
Other SG&A costs	**39,381**	**31,942**	**7,439**	**23%**
Adjustments	-8,053	-10,046	1,993	-20%
Adjusted other SG&A costs	**31,328**	**21,896**	**9,432**	**43%**

In 2016, adjusted other SG&A costs (as % of revenues) came to 16.1% compared to 13.6% in 2015. The increase is primarily attributable to the disproportional increase of other selling and distribution expenses (mainly personnel expenses).

We define Operating Contribution as adjusted gross profit excluding Marketing Costs and Adjusted Fulfilment Costs. The adjustments of gross profit mainly relate to costs for the ERP system change.

kEUR	2016	2015 R	Change absolute in kEUR	Change relative in %
Gross profit	51,772	42,589	9,183	22%
Adjustments	245	-	245	
Adjusted gross profit	**52,017**	**42,589**	**9,428**	**22%**
Marketing costs	-13,569	-9,770	-3,799	39%
Adjusted fulfilment costs	-33,832	-20,252	-13,580	67%
Operating contribution	**4,616**	**12,567**	**-7,951**	**-63%**

In 2016, operating contribution decreased by EUR 7,951k to EUR 4,616k compared to 2015 (EUR 12,567k). The decrease is mainly attributable to the increase of adjusted fulfilment costs resulting from the introduction of direct delivery in China and overall higher fulfilment costs. The operating contribution as percentage of revenues therefore also decreases from 7.8% to 2.4% in 2016.

2.6. Other non-financial performance indicators[19]

	2016	2015
Site visits	93,988,828	51,724,145
Mobile visit share (as % of site visits)	63.37%	55.37%
Mobile orders (as % of number of orders)	45.50%	39.27%
Number of orders	2,336,533	1,803,428
Gross order intake (in EUR)	204,497,057	171,135,408
Returns (as % of net merchandise value)	5.13%	4.58%

In a prior-year comparison, the most important non-financial performance indicators developed positively also considering the first full year consolidation of the Feedo Group and Bebitus.

The Number of orders significantly increased compared to the prior year period. With orders of 2,337 thousand in 2016, an increase by 30% was achieved (2015: 1,803 thousand). The increased number of customers as well as the the higher number of orders is mainly favored by the significantly increased traffic on the webshops. The number of site visits increased by 82% from 51,724 thousand as of December 31, 2015 to 93,989 thousand.

3. OUTLOOK

The positive development in online retail is expected to progress further in the future. The turnover in online retail in Europe is expected to reach EUR 279.6bn in 2017. Until 2021, a predicted compound annual growth rate (CAGR) of 8.5% is expected. The total market volume of the strongly growing Chinese cross-border e-commerce market already amounted to USD 85bn in 2016. The online retail for products for babies and toddlers is an important growth segment in this market.

The Group aims to achieve moderate double-digit growth in revenues. This growth is supported by a combination of a slightly increasing number of active customers, number of orders per active customer, average order value and regular customer ratio. Special focus of the Group is placed on improved profitability. Besides economies of scale resulting from the revenue growth of the Group, this is supported by multiple measures windeln.de already initiated to reduce costs. The Group therefore expects a moderate improvement of adjusted EBIT as percentage of revenues and the operating contribution as percentage of revenues with the full impact of the initiated measures expected to fully materialize only in 2018.

4. OPPORTUNITIES AND RISK REPORT

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

4.1. Risk management process

4.1.1. Organization and responsibility

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

4.1.2. Instruments

- The Group-wide risk policy, which has been defined by the management board of windeln.de SE and is available to all employees of the Group, serves as a guideline for dealing with risks and opportunities within the Group. Besides of information about the individual steps of the risk management process, the policy also includes information about roles and responsibilities in risk management process. The contents of the guideline are reviewed regularly and changed as necessary to guarantee it remains up-to-date on account of the rapidly changing environment.
- A catalog with various risk categories has been drawn up and shall help to identify all possible risks.
- A standardized report file is used in order to guarantee consistent capture and evaluation of the individual risks and opportunities. Furthermore, corresponding countermeasures which reduce the individual risks are mentioned in this file as well.
- The opportunities and risks of each department and business unit are reviewed as to whether they are still up-to-date on a biannual basis and newly identified opportunities and risks are added to the report file. Risks are quantified using a rolling evaluation for the following 36 months from the time of remeasurement, although the given period for assessing the extent of damage and the probability of occurrence is twelve months.
- Each risk is assessed in a gross assessment and in a net assessment. In the net assessment the already implemented countermeasures of each risk are considered and reduce the extent of damage and the occurrence probability of the respective gross risk.
- The identified risks are subsequently reported to the management board in full detail. However, new risks with a certain extent of damage are reported directly to the management board using a standard file as an immediate report.
- An annual workshop is also held with the risk management officer and the responsible heads of division in order to perform an in-depth evaluation of whether all captured risks are up-to-date and to identify any risks that have not yet been recognized.

4.2. Overview of risks

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

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

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

Classes for probability of occurence for event risks

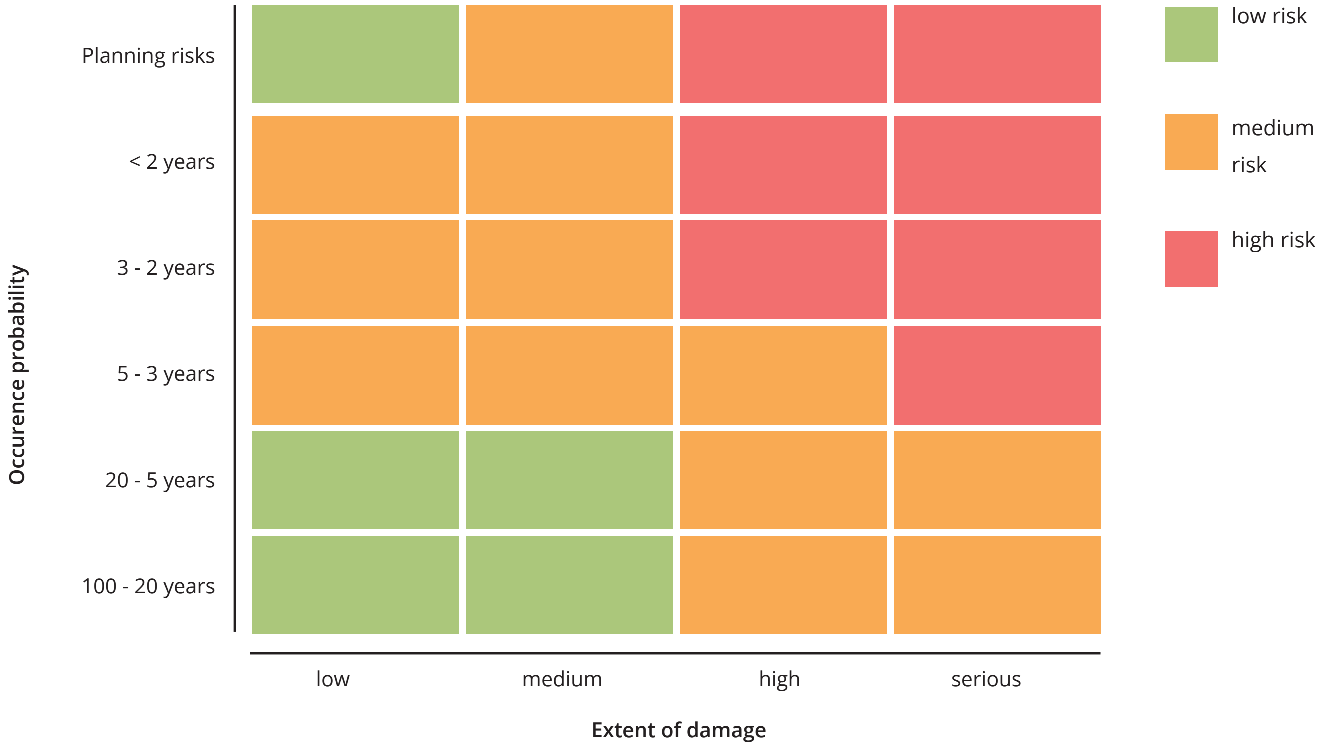
Class	Probability of occurence	Description
1	0% - 4.9%	Occurrence possible once in 100 to 20 years
2	5% - 19.9%	Occurrence possible once in 20 to 5 years
3	20% - 29.9%	Occurrence possible once in 5 to 3 years
4	30% - 49.9%	Occurrence possible once in 3 to 2 years
5	50% - 100%	Occurrence possible at least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

The extent of damage describes the worst-case scenario each risk could have on the Group's earnings before interest and taxes.

Classes for extent of damage for event and planning risks

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

The following risk matrix is the result of the aforementioned classes for probability of occurrence and extent of damage in the net assessment:



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

The Group sees significant risks, in particular with regard to the development of the competitive situation in the European as well as in the Chinese market. Moreover, the macroeconomic development in the People´s Republic of China could impact the Group's result to a high extent. The Group continuously monitors these risks and took several actions in order to reduce the potential risk.

Furthermore, there are certain operating risks that are closely linked to the business model of the windeln.de Group and that can therefore only be reduced to a limited extent. These risks (inventory risks, supplier risks and logistic risks) may, however, also result in huge opportunities for the Group. Above all, the progressive bundling of the Group's central operating units and planned projects in various departments entail a great cost-savings potential.

Significant risks as well as major opportunities may also arise from finance and accounting topics. This is in particular relevant for the revaluation of the subsequent purchase price payments agreed in the acquisition agreements

From the Group's perspective, there are not any risks at an individual level or overall level that would jeopardize the existence of the windeln.de Group.

4.3.1. Strategic risks

a) Macroeconomic risks and regulatory risks

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

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

A continuous monitoring of these risks as well as offering new sales channels such as the Tmall shop, where the Chinese customers can buy in local currency, contribute to a reduction of the aforementioned risks. The Group is constantly working on identifying further countermeasures in order to actively steer those risks.

b) Competitive risks

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

If the Group is able to expand its market share, this could also lead to higher earnings and hence, might offer an opportunity for the Group. In particular, the focus on sales of higher margin products could have a positive effect on the Group's results.

4.3.2. Opportunities and risks from operations

a) Supplier and product quality risks

As the Group is dependent on a limited number of suppliers, in particular for baby food and diapers, it is subject to the risk that suppliers default or offer their products to less favorable conditions. This would have a negative effect on revenues and in particular on product margins. If the Group is able to purchase goods from its suppliers at particularly favorable conditions, this would have a positive influence on the business result and consequently, will lead to an opportunity for the Group. The Group attempts to minimize the aforementioned risk by establishing long-term and strong business relationships with reliable and well-established suppliers. In the course of the ongoing centralization of the purchasing department the Group sees the opportunity to negotiate better supplier conditions for the whole Group which would lead to improved margins for all shops.

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

Risks relating to product quality result on the one hand from the sale of products as a retailer and on the other from the sale of windeln.de SE's own brands. Inadequate quality would not only result in extensive costs from a recall operation, but would also damage customers' trust in the quality of goods in the long term. The windeln.de Group aims to mitigate the risk by performing constant quality controls and carefully selecting suppliers. In its function as a trader, the Group also has corresponding insurance for claims.

Overall, the supplier and product quality risks increased compared to the previous year and are deemed to be high.

b) IT risks

If the Group is no longer able to operate, maintain, integrate and scale the mobile and network infrastructure and other technology, this could have a substantial negative impact on the business as well as on the financial performance and position. In particular, the stability and availability of online platforms as well as IT security with regard to customer data but also confidential corporate data could have negative consequences for the business. The continuous functionality of internal technical systems and databases also plays a significant role for this risk. Especially the integration of the two subsidiaries Feedo and Bebitus into the technical systems of windeln.de SE will play a major role in the coming financial year. If projects in various departments are delayed and synergies cannot be leveraged this could lead to a potential damage for the Group. The Group reduces this risk by an intensive project management and by investing in different systems and processes. Overall, the Group sees a medium to high risk.

c) Logistic and payment risks

The Group's own warehouse and the warehouse locations managed by contractual partners are exposed to the danger of being destroyed by catastrophes such as fire or natural disasters. In addition to the loss of inventories and potential harm to employees, this would also lead to a substantial interruption of business activities. If planned logistic projects cannot be realized or are delayed this could be a high risk for the Group. The Group reduces this risk by detailed project management and ongoing identification of potential savings in the currently existing logistic processes. In addition, the Group assumes that it will be able to further reduce the costs concerning the customer related payment processes which would result in an opportunity for the Group. Compared to the previous year the risk has increased and is now deemed to be high.

d) Personnel related risks

The Group depends on key employees in management. Losing one of these employees would have correspondingly negative effects on the economic success. The Group counters this risk by installing remuneration models with a long-term focus. Furthermore, a higher than expected employee illness and turnover rate could lead to additional costs. The Group has implemented various promotions for its employees within the last months in order to improve working conditions. Therefore, the risk significantly decreases when compared to last year. The risk is estimated as a low to medium risk.

4.3.3. Financial risks

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

The loss of value risk relates to a potential impairment of goodwill, the domains and the self-developed software. Under some circumstances, the carrying amounts of these assets may potentially have to be reduced to their measurement amount. Even though the extent of damage of this risk is critical, it has a medium probability of occurrence and can therefore be classified as a medium risk.

The subsequent purchase price payments which are a part of the acquisition agreement can represent a high risk as well as a great opportunity for the Group. If the fair value evaluation needs to be adjusted as a result of changes in assumptions and new events this could have a profound effect on the Group's result both in negative and in a positive way. Since the generated revenues and earnings are considered in the quarterly revaluation these factors significantly reduce the potential risk as well as a potential opportunity. Nevertheless, the Group regards both the opportunity and the risk as high.

If the provisions for the loyalty points program needs to be adjusted due to a strong increase of the redemption rate this may have a negative impact on the Group's earnings. At the same time, the Group sees an opportunity in this risk, as the provisions could potentially not be needed to their full amount recognized and their reversal could lead to future income. Since the emission of loyalty points to customers has been reduced significantly, the risk has been strongly decreased compared to the previous year. The windeln.de Group considers the overall risk to be low.

4.3.4. Legal and organizational risks

The Group is exposed to various national and international legislation and requirements at various levels as a result of the international expansion and the IPO in 2015. This primarily relates to consumer protection law and competition law. In order to meet all requirements and obligations, individuals have been made responsible and corresponding processes have been established to monitor all relevant developments in the Group. Legal risks are estimated overall as medium.

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

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

5. INTERNAL CONTROLS AND RISK MANAGEMENT SYSTEM IN TERMS OF THE GROUP FINANCIAL REPORTING PROCESS

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

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

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

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

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

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

On account of the small size and low level of complexity, the Group has not had a separate internal audit department to date and makes use of internal employees for review purposes. The plan is to use external service providers on a case-by-case basis in the future.

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

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

6. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

6.1. Risk from the use of financial instruments

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

So far, the Group refrained from the possible use of derivatives to hedge certain risks.

6.1.1. Market risk

Market risk describes the risk that the market price may be subject to fluctuations. Changes to the market price may have a corresponding effect on the fair value or future cash flow of a financial instrument. Market risks include interest rate, currency and other price risks.

a) Currency risk

The Group's international activities expose it to foreign currency risks. The risk mainly relates to revenue generated in foreign currency as well as goods purchased in foreign currency. For example, if a devaluation is performed on the functional currency, the acquisition cost for goods purchased in foreign currency increase, and the revenue translated into the functional currency generally also increases at the same time. The two effects counterbalance each other, meaning that there is only a currency risk if goods are purchased in one currency and sold in another. The Group attempts to mitigate this risk through natural hedging, whereby products are purchased in the local currency and then resold to customers in the same currency. This is particularly relevant for the business activities in Switzerland, which are primarily operated by windeln.de SE. In addition, local entities currently make purchases in other foreign currencies, albeit for immaterial amounts. The Group uses regular analyses to monitor the volume of these purchases. At the same time however, an appreciation of the functional currency can also lead to improved earnings, meaning that the risk also represents an opportunity.

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

b) Interest rate risk

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

6.1.2. Credit risk

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

The risk is particularly relevant in terms of a potential default of trade receivables. For this reason, credit limits are established for all customers based on internal rating criteria. All outstanding receivables are monitored on a regular basis and are subject to a three-tier dunning procedure. In light of the age structure of the trade receivables, specific bad debt allowances are recognized to reduce the risk. Overdue and unsuccessfully dunned receivables were sold at a fixed until Q1 2016. In Q2 2016, a framework agreement with a collection service provider has been concluded. Uncollectible amounts are fully derecognized with an effect on income.

In addition, there is a default risk for cash and cash equivalents if banks can no longer meet their obligations. The Group minimizes this risk by working exclusively with banks with good credit ratings. The windeln.de Group considers the overall risk to be low.

6.1.3. Liquidity risk

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

Overdraft facilities are used to cover liquidity in case of a high short-term need for liquidity. As of the reporting date, windeln.de SE has an unused credit line of EUR 14m[20] at three independent banks. There are therefore no liquidity risks for the Group at present.

20 Of the total credit line of EUR 14m, EUR 2.8m are available as of December 31, 2016.

7. 7. TAKEOVER RELATED DISCLOSURES PURSUANT TO SECS. 289 (4) AND 315 (4) GERMAN COMMERCIAL CODE (HGB)[21]

7.1. Composition of issued capital

The Company's capital stock came to EUR 26,317,970 as of December 31, 2016. The capital stock is divided into 26,317,970 no-par value bearer shares with an imputed share in the capital stock of EUR 1.00 per share. The shares are fully paid in. All shares have the same rights and duties attached. Every share has one vote.

7.2. Restrictions relating to the voting rights or the transfer of shares

As of the end of the financial year 2016, windeln.de SE hold 64,683 treasury shares from which pursuant to Sec. 71 b of the German Corporation Act (AktG) windeln.de is not entitled to any rights.

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

As of the end of the financial year 2016, there were the following direct and indirect participations in the capital of windeln.de SE that exceeded the threshold of 10% of the voting rights:

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

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

The supervisory board appoints the members of the management board on the basis of Art. 9 (1) and Art. 46 of the SE regulation (SE-Verordnung), Secs. 84 and 85 AktG and Sec. 6 (3) of the articles of incorporation and bylaws for a term of office of maximum

21 Facts pursuant to secs. 289 (4), 315 (4) German Commercial Code (HGB) not fulfilled by windeln.de are not presented.

five years. In accordance with Art. 6 (1) of the articles of incorporation and bylaws, the management board comprises one or more persons, otherwise the supervisory board determines the number of members of the management board.

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

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

7.5.1. Repurchase of treasury shares

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

The authorization has been executed as part of a repurchase program pursuant to Art. 4 (2) and (4) of regulation (EG) 2273/2003. In the period between the publication of the repurchase program as of Mai 24, 2016, and the closing message as of June 7, 2016, 64,683 treasury shares have been repurchased for the purpose of servicing earn out obligations in connection with the acquisition of the Feedo Group and Bebitus.

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

7.5.2. Authorized capital 2016

The management board is authorized, subject to the approval of the supervisory board, to raise the capital stock once or several times up until May 3, 2020 by up to a total of EUR 11,773,796.00 by issuing new no-par value bearer shares in return for cash or non-cash contributions and, subject to the approval of the supervisory board, to preclude the shareholders' subscription rights under certain conditions and within defined limits (authorized capital 2015). In the German commercial register, the authorized capital as of June 17, 2016, is named Authorized capital 2016/I.

7.5.3. Conditional capital 2016/I

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

7.5.4. Conditional capital 2016/II

The Company's capital stock has been increased contingently by up to EUR 1,999,451.00 by the issue of up to 1,999,451 new shares (contingent capital 2015/II). The contingent capital increase will only be conducted to a limited extent and serves exclusively to fulfil options that are issued on account of the general meeting dated April 21, 2015 (confirmation of continued validity after the change of legal structure to a SE by the annual general meeting as of June 17, 2016) that authorized the granting of stock options to members of the management board and employees of the Company in accordance with the long-term incentive program 2015. In the German commercial register, the conditional capital as of June 17, 2016, is named conditional capital 2016/II.

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

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

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

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

8. CORPORATE GOVERNANCE STATEMENT

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

9. REMUNERATION REPORT

Please refer to section 13.3 Remuneration report of the notes for further information on the remuneration of the management board and the supervisory board according to Sec. 315 (4) German Commercial Code (HGB)

Munich, March 6, 2017

windeln.de SE
The management board

Alexander Brand	Konstantin Urban
Dr. Nikolaus Weinberger	Jürgen Vedie

FINANCIAL SATATEMENTS

CONSOLIDATED INCOME STATEMENT AND OTHER COMPREHENSIVE INCOME

kEUR	Notes	2016	2015 R
Continuing operations			
Revenues	9.1	194,756	160,994
Cost of sales	9.2	-142,984	-118,405
Gross profit		**51,772**	**42,589**
Selling and distribution expenses	9.2	-68,413	-43,117
Administrative expenses	9.2	-18,804	-23,395
Other operating income	9.1	971	5,093
Other operating expenses	9.2	-839	-545
Earnings before interest and taxes (EBIT)		**-35,313**	**-19,375**
Financial income	9.3	1,043	17
Financial expenses	9.3	-179	-2,997
Financial result		**864**	**-2,980**
Earnings before taxes (EBT)		**-34,449**	**-22,355**
Income taxes	8.12	-16	5
Profit or loss from continuing operations		**-34,465**	**-22,350**
Profit or loss after taxes from discontinued operations	3.6	-7,508	-6,662
PROFIT OR LOSS FOR THE PERIOD		**-41,973**	**-29,012**
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:			
Actuarial gains or losses from remeasurement of defined benefit plans	8.8	53	-48
Deferred taxes relating to items that will not be reclassified	8.12	-11	10
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		-255	-17
OTHER COMPREHENSIVE INCOME OR LOSS, NET OF TAX		**-213**	**-55**
TOTAL COMPREHENSIVE INCOME OR LOSS, NET OF TAX		**-42,186**	**-29,067**
Basic earnings per share (in EUR)	9.4	-1.60	-1.23
Diluted earnings per share (in EUR)	9.4	-1.42	-1.18
Basic earnings per share from continuing operations (in EUR)	9.4	-1.31	-0.94
Diluted earnings per share from continuing operations (in EUR)	9.4	-1.17	-0.91

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Assets kEUR	Notes	December 31, 2016	December 31, 2015 R
NON-CURRENT ASSETS			
Intangible assets	8.1	31,169	31,211
Fixed assets	8.2	865	1,334
Other financial assets	8.3	3,146	914
Other non-financial assets	8.4	330	289
Deferred tax assets	8.12	10	2
Total non-current assets		**35,520**	**33,750**
CURRENT ASSETS			
Inventories	8.5	21,645	27,099
Prepayments	8.5	374	1,670
Trade receivables	8.3	2,508	2,469
Income tax receivables	8.12	6	5
Other financial assets	8.3	7,330	4,945
Other non-financial assets	8.4	2,990	2,727
Cash and cash equivalents	8.6	51,302	88,678
Total current assets		**86,155**	**127,593**
TOTAL ASSETS		**121,675**	**161,343**

Equity and liabilities kEUR	Notes	December 31, 2016	December 31, 2015 R
EQUITY			
Issued capital	8.7	26,318	25,746
Share premium	8.7	159,993	154,570
Treasury shares	8.7	-370	-
Accumulated loss		-105,473	-63,500
Cumulated other comprehensive income		-233	-20
Total equity		**80,235**	**116,796**
NON-CURRENT LIABILITIES			
Defined benefit obligations and other accrued employee benefits	8.8	153	201
Other provisions	8.9	86	221
Financial liabilities	8.10	119	73
Other financial liabilities	8.10	589	3,542
Deferred tax liabilities	8.12	6,057	6,137
Total non-current liabilities		**7,004**	**10,174**
CURRENT LIABILITIES			
Other provisions	8.9	1,662	2,221
Financial liabilities	8.10	64	41
Trade payables	8.10	17,517	18,137
Deferred revenues	9.1	3,317	4,352
Income tax payables	8.12	12	9
Other financial liabilities	8.10	8,592	6,028
Other non-financial liabilities	8.11	3,272	3,585
Total current liabilities		**34,436**	**34,373**
TOTAL EQUITY AND LIABILITIES		**121,675**	**161,343**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

kEUR	Notes	Issued Capital	Share premium	Treasury Shares
As at January 1, 2016 R		**25,746**	**154,570**	**-**
Total comprehensive income or loss of the period		-	-	-
Issue of share capital	8.7	572	28	-
Repurchase of own shares	8.7	-	-	-370
Transaction costs	8.7	-	-30	-
Share-based payments	8.8	-	5,425	-
As at December 31, 2016		**26,318**	**159,993**	**-370**
As at January 1, 2015		**163**	**68,911**	**-**
Total comprehensive income or loss of the period		-	-	-
Issue of share capital	8.7	351	99,823	-
Capital increases out of reserves		25,232	-25,232	-
Contributions in kind		-	1,077	-
Transaction costs	8.7	-	-5,005	-
Share-based payments	8.8	-	14,996	-
As at December 31, 2015 R		**25,746**	**154,570**	**-**

Accumulated loss	Actuarial gains/losses from remeasurement of defined benefit pension plans	Exchange differences on translation of foreign operations	Other comprehensive income	Total equity
-63,500	**-28**	**8**	**-20**	**116,796**
-41,973	42	-255	-213	-42,186
-	-	-	-	600
-	-	-	-	-370
-	-	-	-	-30
-	-	-	-	5,425
-105,473	14	-247	-233	80,235
-34,488	**10**	**25**	**35**	**34,621**
-29,012	-38	-17	-55	-29,067
-	-	-	-	100,174
-	-	-	-	-
-	-	-	-	1,077
-	-	-	-	-5,005
-	-	-	-	14,996
-63,500	-28	8	-20	116,796

CONSOLIDATED STATEMENT OF CASH FLOWS

kEUR	Notes	2016	2015 R
Profit or loss for the period		-41,973	-29,012
Amortization (+) / impairment (+) of intangible assets	8.1	1,065	699
Depreciation (+) / impairment (+) of fixed assets	8.2	708	384
Increase (+) / decrease (-) in other provisions	8.9	-694	1,190
Non-cash expenses (+) from employee benefits	8.8	5,428	8,203
Other non-cash expense (+) / income (-) items		43	-1,989
Increase (-) / decrease (+) in inventories	8.5	5,454	-13,891
Increase (-) / decrease (+) in prepayments	8.5	1,296	-1,386
Increase (-) / decrease (+) in trade receivables	8.3	-39	-505
Increase (-) / decrease (+) in other assets	8.3, 8.4	-1,498	1,392
Increase (-) / decrease (+) in restricted cash	8.3	-10	-
Increase (+) / decrease (-) in trade payables	8.10	-680	5,452
Increase (+) / decrease (-) in deferred revenues	9.1	-1,034	2,245
Increase (+) / decrease (-) in other liabilities	8.10, 8.11	107	4,959
Gain (-) / loss (+) from disposal of intangible assets	8.1	81	44
Gain (-) / loss (+) from disposal of fixed assets	8.2	529	1
Interest expenses (+) / income (-)	9.3	3	1
Income tax expenses (+) / income (-)	8.12	17	-26
Income tax paid (-) / received (+)	8.12	-27	-5
Net cash flows from / used in operating activities		**-31,224**	**-22,244**
Proceeds (+) from sales of fixed assets	8.2	22	-
Purchase (-) of intangible assets	8.1	-1,434	-1,817
Purchase (-) of fixed assets	8.2	-741	-1,136
Purchase (-) of financial investments	8.3	-4,375	-
Payments (-) or refunds (+) in connection with additions to group structure less acquired cash and cash equivalents	8.7	397	-13,333
Interest received (+)	9.3	18	15
Net cash flows from / used in investing activities		**-6,113**	**-16,271**
Proceeds (+) from issue of shares	8.7	74	100,032
Transaction cost (-) on issue of shares	8.7	-27	-5,135
Repayment (-) of finance lease liabilities	8.6, 10	-55	-38
Proceeds (+) from financial liabilities	8.6, 8.10	-	29
Repayment (-) of financial liabilities	8.6, 8.10	-10	-1,505
Interest paid (-)	9.3	-21	-27
Net cash flows from / used in financing activities		**-39**	**93,356**
Cash and cash equivalents at the beginning of the period	8.6	88,678	33,830
Net increase / decrease in cash and cash equivalents		-37,376	54,841
Change in cash and cash equivalents due to foreign exchange rates		0	7
Cash and cash equivalents at the end of the period	8.6	51,302	**88,678**

Notes to the consolidated financial statements for the financial year from January 1 to December 31, 2016

1. Corporate information

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

The Company was founded under the name Urban-Brand GmbH with effect as of February 1, 2010, and was renamed windeln.de GmbH effective October 21, 2013. Effective April 16, 2015, the Company was reorganized from a limited liability company (windeln.de GmbH) to a stock corporation (windeln.de AG). The Annual General Meeting held on June 17, 2016, approved to change the legal structure of the Company into a European Company (Societas Europaea – SE). The change in legal structure became effective upon entry in the Commercial Register on August 31, 2016.

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

2. General principles

windeln.de SE is a parent company as defined by Sec. 290 German Commercial Code (HGB). Due to the issue of equity securities on the capital market, windeln.de SE is obliged pursuant to Sec. 315a (1) HGB in conjunction with Article 4 of the Regulation of the European Parliament of July 19, 2002, to prepare the Company's consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) as adopted in the EU. These consolidated financial statements for the financial year 2016 were prepared in accordance with the IFRSs and Interpretations of the IFRS IC as well as the supplementary provisions of Sec. 315a (1) HGB.

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

The management board prepared the consolidated financial statements on March 6, 2017, and thus approved them for publication as defined by IAS 10. The consolidated financial statements and the group management report are submitted to and published in the Bundesanzeiger (German Federal Gazette). The Company's supervisory board has the authority to amend the consolidated financial statements.

3. Basic accounting policies

3.1 Basis of presentation

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

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

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

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

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

3.2 New accounting standards issued by the IASB

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

The Group has applied the following standards and amendments for the first time for its annual reporting period commencing on January 1, 2016.

- Amendments to IFRS 11: Accounting for acquisitions of interests in joint operations
- Amendments to IAS 16 and IAS 38: Clarification of acceptable methods of depreciation and amortisation
- Annual improvements to IFRSs 2012-2014 cycle
- Amendments to IAS 1: Disclosure initiative
- Amendments to IAS 7: Early adoption of disclosure initiative with regards to cash flow statements

The adoption of these amendments did not have any impact on net assets, financial position and results of operation in the current period or any prior period and is not likely to affect future periods.

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

Standard	Reuqired effective date	Expected impact on consolidated financial statements
IFRS 9 Financial Instruments	January 1, 2018	The application of the newly introduced measurement categories of financial liabilities will lead to a change in disclosure, but with our current state of knowledge not to a change in measurement. The new rules on impairment of financial assets and on hedge accounting have no impact on the Group.
IFRS 15 Revenue from Contracts with Customers	January 1, 2018	The Group intends to adopt the new standard retrospectively for its reporting period commencing on January 1, 2017. While there is no impact on the earnings positions of the Group, the presentation of loyalty bonuses as part of contract liabilities in the statement of financial position will change (presentation within deferred revenues instead of presentation in provisions). In addition, the application of the new standard will result in extended notes disclosures.
IFRS 16 Leases	January 1, 2019	The application of the new standard will affect leased items such as office and warehouse spaces and leased company cars. Their recognition as finance leases will result in a capitalization of new rights of use, and simultaneously a capitalization of financial liabilities. In addition, we expect a shift of expenses from operating lease expenses to financial expenses from lease liabilities. The Group has not yet decided if a full retrospective approach or modified retrospective approach should be applied. The Group has not yet decided if it will apply an early adoption.
Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses	January, 1 2017	No impact.
Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions	January 1, 2018	No impact.

3.3 Significant accounting judgments and estimates

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

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

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

3.4 Restatements in connection with business combinations

In connection with the acquisition of the Feedo Sp. z o.o. and its subsidiaries (hereinafter referred to as “Feedo Group” or “Feedo”) in 2015, a review process of the issued seller guarantees was performed in January 2016. The review was triggered by new findings that indicate an incompleteness of the business plan at the acquisition date. In the course of this review process, windeln.de SE and two of the sellers of the Feedo Group agreed on a compensation payment of EUR 1,050k in March 2016. The compensation payment was received in April 2016. In May 2016, windeln.de SE agreed with the three remaining sellers of the Feedo Group, an investor and both of the founders, on a compensation of EUR 2,128k that will be offset against subsequent purchase price payments (Earn Outs) in the coming years. The compensation claim has a present value of EUR 2,051k as of the acquisition date.

The subsequent correction of the purchase price and the business plan results in an amendment of the purchase price; the non-forfeitable portion of that purchase price (contingent purchase price, so-called Earn Out) is part of the total transferred consideration. All three components (a) the amended business plan, (b) the compensation payment received and (c) the offset against future contingent purchase price payments are to be recognized as adjustment to the transferred consideration within the measurement period during which the acquirer shall – in accordance with IFRS 3.46 – adjust the provisional amounts recognized for a business combination. Additionally, the amendment of the business plan as of the acquisition date results in a decrease of identified intangible assets in the amount of EUR 182k and in a decrease of deferred tax liabilities in the amount of EUR 35k. The adjusted transferred consideration falls below the acquired net assets measured at fair value, resulting in a bargain purchase price (badwill). As a consequence, it was reassessed if all of the acquired assets and liabilities were correctly identified and recognized. Additionally, the procedures used to measure the fair values of the acquired intangible assets were reviewed. The reassessment did not result in changes in the acquired assets or liabilities. The recognition of the amended transferred consideration on the acquisition date results in a retrospective adjustment of the purchase price allocation:

kEUR	As presented	Changes from retrospective purchase price adustments in accordance with IFRS 3	Adjusted
Purchase price			
Cash	8,050	-1,050	7,000
Transferred shares of windeln.de AG (now windeln.de SE)	1,231	-	1,231
Fair value of the contingent purchase price payment (Earn Out)	3,110	-73	3,037
Compensation claim offset against future contingent purchase price payments	-	-2,051	-2,051
Total consideration transferred	**12,391**	**-3,174**	**9,217**
Identifiable net assets at fair value	**11,353**	**-147**	**11,206**
Goodwill / badwill from the acquisition	**1,038**	**-3,027**	**-1,989**
Fair value of share-based payments			
Prepayment for share-based payments	576	-	576
Fair value of the additional commitment to share-based payments	5,676	-46	5,630
Economic purchase price	**18,643**	**-3,220**	**15,423**

During the measurement period, adjustments to the provisional amounts are to be recognized as if the accounting for the business combination had been completed at the acquisition date. Therefore, the reporting items of the financial year 2015 are to be restated, and the badwill in the amount of EUR 1,989k is to be recognized as other operating income in the statement of comprehensive income and as other non-cash income item in the statement of cash flows. The quantitative impact on the reporting items of the financial year 2015 is presented in note 3.6.

3.5 Correction of errors

In the consolidated financial statements, adjustments are required to correctly recognize expenses in relation to share-based payments. In the course of the acquisition of Bebitus Retail S.L. (now Bebitus Retail S.L.U.), both founders of the company were given commitments on subsequent purchase price payments that consist of two components: (a) contingent consideration (Earn Out) accounted for pursuant to IFRS 3 and (b) employee remuneration that is accounted for as either short-term benefit to employees (IAS 19) or share-based payment (IFRS 2). The fair value of the share-based payment commitment (IFRS 2) is revaluated at each balance sheet date and recognized as expense ratably over the vesting period. The vesting period is 27 months instead of 36 months as reported in the 2015 Annual Report. The reported expense in financial year 2015 of EUR 1,572k is based on an incorrect assumption of a vesting period of 36 months, and is therefore understated by EUR 524k. The expected total expense of the employee remuneration remains unchanged for each respective balance sheet date. In addition, the revised vesting period impacts the dilution effects in the presentation of earnings per share.

The incorrect accounting was retrospectively corrected and disclosed in accordance with IAS 8. The quantitative impact on the reporting items of the financial year 2015 is presented in note 3.6.

3.6 Discontinued operations

Accounting policy

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

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits and financial assets.

An impairment loss is recognized for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognized for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognized. A gain or loss not previously recognized by the date of the sale of the non-current asset (or disposal group) is recognized at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortized while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognized.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the balance sheet.

Recognition in group financial statements

On July 28, 2016, the management board with approval by the supervisory board announced that the business model flash sales will be discontinued. Flash sales operations were the sole business activity of the Shopping Clubs business segment and the “Shopping Clubs” operating segment. With the final exit of flash sales operations by end of September 2016, the business segment qualifies as a discontinued operation under IFRS, and is therefore presented separately from continuing operations in the Group’s consolidated statement of comprehensive income as of December 31, 2016. In accordance with IFRS 5, the separation in continuing and discontinued operations is also made for comparable periods.

In the course of the exit, windeln.de SE sold or disposed non-current assets, comprising mainly warehouse equipment. A loss of EUR 591k is recognized from their sale or their disposal.

Profit or loss from discontinued operations in the years 2016 and 2015 breaks down as follows:

kEUR	2016	2015
Revenues	14,830	17,608
Cost of sales	-11,991	-13,082
Gross profit	**2,839**	**4,526**
Selling and distribution expenses	-9,683	-10,760
Administrative expenses	-134	-461
Other operating income	82	60
Other operating expenses	-610	-24
Earnings before interest and taxes (EBIT)	**-7,506**	**-6,659**
Financial expenses	-2	-3
Financial result	**-2**	**-3**
Earnings before taxes (EBT)	**-7,508**	**-6,662**
Income taxes	-	-
Profit or loss after tax from discontinued operations	**-7,508**	**-6,662**
Basic earnings per share from discontinued operations (in EUR)	-0.29	-0.29
Diluted earnings per share from discontinued operations (in EUR)	-0.25	-0.27

In the years 2016 and 2015, cash flows from discontinued operations were as follows:

kEUR	2016	2015
Net cash flows used in operating activities	-5,990	-7,336
Net cash flows used in investing activities	-275	-610
Net cash flows used in financing activities	-1	-

As a result of the retrospective purchase price adjustment (see note 3.4), the error correction (see note 3.5) and the presentation of discontinued operations, reporting items of the financial year 2015 are restated as follows:

Impact on consolidated income statement and other comprehensive income	As presented	Changes from retro-spective purchase price adjustments in accordance with IFRS 3	Changes from adjustments according to IAS 8	Changes from presentation of discontinued operations	Adjusted
kEUR	**2015**				**2015 R**
Revenues	178,602	-	-	-17,608	160,994
Cost of sales	-131,487	-	-	13,082	-118,405
Gross profit	**47,115**	**-**	**-**	**-4,526**	**42,589**
Selling and distribution expenses	-53,877	-	-	10,760	-43,117
Administrative expenses	-23,332	-	-524	461	-23,395
Other operating income	3,164	1,989	-	-60	5,093
Other operating expenses	-569	-	-	24	-545
Earnings before interest and taxes (EBIT)	**-27,499**	**1,989**	**-524**	**6,659**	**-19,375**
Financial income	17	-	-	-	17
Financial expenses	-2,927	-73	-	3	-2,997
Financial result	**-2,910**	**-73**	**-**	**3**	**-2,980**
Earnings before taxes (EBT)	**-30,409**	**1,916**	**-524**	**6,662**	**-22,355**
Income taxes	5	-	-	-	5
Profit or loss from continuing operations	**-30,404**	**1,916**	**-524**	**6,662**	**-22,350**
Profit or loss after tax from discontinued operations	-	-	-	-6,662	-6,662
PROFIT OR LOSS FOR THE PERIOD	**-30,404**	**1,916**	**-524**	**-**	**-29,012**
OTHER COMPREHENSIVE INCOME OR LOSS, NET OF TAX	**-57**	**2**	**-**	**-**	**-55**
TOTAL COMPREHENSIVE INCOME OR LOSS, NET OF TAX	**-30,461**	**1,918**	**-524**	**-**	**-29,067**
Basic earnings per share (in EUR)	-1.28				**-1.23**
Diluted earnings per share (in EUR)	-1.24				**-1.18**
Basic earnings per share from continuing operations (in EUR)	n/a				**-0.94**
Diluted earnings per share from continuing operations (in EUR)	n/a				**-0.91**

Impact on consolidated statement of financial position	As presented	Changes from retro-spective purchase price adjustments in accordance with IFRS 3	Changes from adjustments according to IAS 8	Adjusted
kEUR	December 31, 2015			December 31, 2015 R
NON-CURRENT ASSETS				
Intangible assets	32,428	-1,217	-	31,211
Fixed assets	1,334	-	-	1,334
Other financial assets	33	881	-	914
Other non-financial assets	289	-	-	289
Deferred tax assets	2	-	-	2
Total non-current assets	**34,086**	**-336**	**-**	**33,750**
CURRENT ASSETS				
Inventories	27,099	-	-	27,099
Prepayments	1,670	-	-	1,670
Trade receivables	2,469	-	-	2,469
Income tax receivables	5	-	-	5
Other financial assets	2,725	2,220	-	4,945
Other non-financial assets	2,727	-	-	2,727
Cash and cash equivalents	88,678	-	-	88,678
Total current assets	**125,373**	**2,220**	**-**	**127,593**
TOTAL ASSETS	**159,459**	**1,884**	**-**	**161,343**
EQUTY				
Issued capital	25,746	-	-	25,746
Share premium	154,046	-	524	154,570
Accumulated loss	-64,892	1,916	-524	-63,500
Cumulated other comprehensive income	-22	2	-	-20
Total equity	**114,878**	**1,918**	**-**	**116,796**
LIABILITIES				
Total non-current liabilities	**10,208**	**-34**	**-**	**10,174**
Total current liabilities	**34,373**	**-**	**-**	**34,373**
TOTAL EQUITY AND LIABILITIES	**159,459**	**1,884**	**-**	**161,343**

The change of non-current liabilities of EUR 34k relates to deferred taxes. Changes from presentation of discontinued operations have no impact on the statement of financial position. The opening balances as of January 1, 2015, are not affected by the retrospective restatement.

The tables in the presented consolidated financial statements are marked with “R” if the disclosed numbers have been restated compared to the last published consolidated financial statements as of December 31, 2015.

4. Segment reporting

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

For the purposes of corporate management, the windeln.de Group is organized into the "Online Shop" and "Shopping Club" business models distinguished by the management board and in business units by geographical region and has, in accordance with the rules in IFRS 8, the following reportable operating segments:

- The "German Shop" operating segment runs the windeln.de online shop for customers in Europe and until mid December 2016 for customers in China. Since mid of December 2016, the new onlineshop www.windeln.com.cn is live. In addition, the Chinese operations run through the sales platform Tmall since July 2016, is included in this operating segment.
- The "International Shops" operating segment comprises the windeln.ch, toys.ch, kindertraum.ch international online shops, the pannolini.it online shop as well as the feedo.pl, feedo.cz, feedo.sk, bebitus.com, bebitus.fr and bebitus.pt online shops.
- Until September 27, 2016, the "Shopping Clubs" operating segment ran the nakiki.de and nakiki.it platforms, which provided their services as part of free membership to shopping clubs. Due to the abandonment of the flash sale business, the operating segment "Shopping Clubs" is accounted for as discontinued operation. See note 3.6.

The management board monitors the revenue and modified operating results for the purpose of making decisions about resource allocation and determining the performance of the units. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements. The financial result and tax result are managed uniformly within the Group and are not allocated to the individual operating segments. The KPI "EBIT contribution" per operating segment comprises the gross profit on sales less the allocated selling and administrative expenses as well as pro rata other operating income and other operating expenses. Furthermore, the Personnel, IT and Finance departments as well as the management team provide services for the Group as a whole (shared services). These expenses are reported under Corporate instead of passing them on at individual segment level. Of the total amount reported of EUR 15,795k (2015: EUR 12,097k), a figure of EUR 9,085k (2015: EUR 8,754k) relates to personnel expenses.

Transfer prices between operating segments are determined at arm's length. No information on segment assets or liabilities is available. The Group's operating business is not subject to major seasonal fluctuations.

The operating segments developed as follows:

2016 kEUR	German Shop	International Shops	Other/ Cons.	Total continuing operations	Shopping Clubs (discontinued operation)	Total
Revenues	**138,986**	**55,870**	**-100**	**194,756**	**14,830**	**209,586**
EBIT contribution	**-2,334**	**-17,181**	**-3**	**-19,518**	**-7,506**	**-27,024**
Expenses from share-based payments	-126	5,087	-	4,961	15	4,976
Expenses in connection with expansion	-	155	-	155	6	161
Expenses in connection with reorganization	116	444	-	560	2,563	3,123
Expenses in connection with the ERP system change	712	56	-	768	44	812
Adjusted EBIT contribution	**-1,632**	**-11,439**	**-3**	**-13,074**	**-4,878**	**-17,952**
as % of revenues	-1.2%	-20.5%		-7.1%	-32.9%	-8.6%
Corporate				-15,795	-	-15,795
Earnings before interest and taxes (EBIT)				**-35,313**	**-7,506**	**-42,819**
Financial result				864	-2	862
Income taxes				-16	-	-16
Profit or loss for the period				**-34,465**	**-7,508**	**-41,973**

2015 R kEUR	German Shop	International Shops	Other/ Cons.	Total continuing operations	Shopping Clubs (discontinued operation)	Total
Revenues	**140,255**	**20,739**	**-**	**160,994**	**17,608**	**178,602**
EBIT contribution	**4,755**	**-12,075**	**42**	**-7,278**	**-6,659**	**-13,937**
Expenses from share-based payments	854	6,451	-	7,305	311	7,616
Expenses in connection with expansion	21	232	-	253	13	266
Expenses in connection with reorganization	-	-	-	-	525	525
Expenses in connection with the ERP system change	-	-	-	-	-	-
Adjusted EBIT contribution	**5,630**	**-5,392**	**42**	**280**	**-5,810**	**-5,530**
as % of revenues	4.0%	-26.0%		0.2%	-33.0%	-3.1%
Corporate				-12,097	-	-12,097
Earnings before interest and taxes (EBIT)				**-19,375**	**-6,659**	**-26,034**
Financial result				-2,980	-3	-2,983
Income taxes				5	-	5
Profit or loss for the period				**-22,350**	**-6,662**	**-29,012**

There are no individual customers with whom more than 10% of total revenue is recorded.

The breakdown of revenue by country and product group is explained in note 9.1.

Non-current assets in Germany amount to EUR 3,823k (December 31, 2015: EUR 4,116k). The main non-current assets of the Group are located in the followings countries:

- Poland: domains of EUR 13,712k (December 31, 2015: EUR 14,183k)
- Spain: domains of EUR 11,121k (December 31, 2015: EUR 11,121k)
- Switzerland: domains of EUR 1,822k (December 31, 2015: EUR 1,806k)

5. Basis of consolidation

Accounting policy

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

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

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

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

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

Recognition in group financial statements

As of December 31, 2016, the Group’s scope of consolidation includes windeln.de SE and the following subsidiaries:

Name	Interest of the Group	Pro rata equity (IFRS) in kEUR as of December 31, 2016	Purpose of the company
Urban-Brand Management Ltd., Wakefield, United Kingdom	100%	0	The company has not had any business activities, de-registration was applied for in November 2016.
Urban-Brand Schweiz GmbH, Männedorf, Switzerland	100%	-	Since 2014, the company does not have any business activities, it was de-registered on September 20, 2016.
windeln.ch AG, Uster, Switzerland	100%	397	To provide services in the field of international e-commerce. The company was acquired on December 12, 2013.
pannolini.it S.r.l., Milan, Italy	100%	50	To promote and support the operation of online platforms for the distribution of baby and toddler products as well as products for families and to provide general services to assist the distribution of these products. The company was founded on April 24, 2015.
Feedo Sp. z o.o., Warsaw, Poland	100%	-2,861	Holding company of the Feedo Group and service company for the Polish market providing marketing, IT development, procurement and administrative services. The company was acquired on July 3, 2015.
MyMedia s.r.o., Prague, Czech Republic	100%	-3,293	To operate webshops and distribute baby and toddler products as well as products for families to end customers domiciled in the Czech Republic, Slovakia and Poland. The company is wholly owned by Feedo Sp. z o.o.
Bebitus Retail S.L.U., Barcelona, Spain (until October 6, 2015 Bebitus Retail S.L.)	100%	-4,366	To operate webshops and distribute baby and toddler products as well as products for families to end customers domiciled in Spain, Portugal and France. The company was acquired on October 6, 2015.
windeln.ro labs SRL, Sibiu, Romania	100%	35	Programming activities and other IT and software services. The company was founded on November 18, 2015.
Cunina GmbH, Abensberg, Germany	100%	-40	Retail and wholesale of baby and toddler products and of a complementary product range. The company was founded by means of a shareholders' agreement effective January 11, 2016, and by registration in the commercial register on April 6, 2016

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

Significant accounting judgments and estimates

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

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

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

6. Notes on the subsequent measurement of the acquisition

Accounting policy

Derivative financial instruments are initially measured at fair value on the date on which the contract is entered into. Subsequent measurement is also at fair value as of the end of each reporting period. The method used to recognize gains and losses depends on whether the derivative financial instrument was designated as a hedging instrument and, if so, on the nature of the hedged item.

- In the presented consolidated financial statements, there are no financial instruments designated as hedging instruments, that would have led to a recognition of fair value changes within other comprehensive income.
- Contingent considerations (Earn Out) and claim assets are measured at their respective fair values; fair value changes are recognized in profit or loss.

Subsequent accounting for the acquisition of Kindertraum.ch AG (now windeln.ch AG)

As of December 12, 2013, 100% of the shares in Kindertraum.ch AG were purchased, and the company was renamed windeln.ch AG after the acquisition. The subsequent measurement of contingent refund obligations resulted in financial expenses of EUR 2,211k in the financial year 2015. As of December 31, 2016 and December 31, 2015, there are no obligations or claims in connection with purchase price payments of this transaction.

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

As of July 3, 2015, 100% of the shares in Feedo Sp. z o.o. and its subsidiaries were purchased. The consideration transferred for the acquisition comprises cash payments, shares in windeln.de AG (now windeln.de SE) as well as contingent considerations (Earn Out) that can be satisfied with either cash or with shares. As described in note 3.4, violations of the seller guarantees lead to renegotiations in H1 2016, that resulted in a retrospective adjustment of the purchase price.

From an economic perspective, the subsequent purchase price is composed of contingent purchase price payments (Earn Outs) accounted for under IFRS 3, and – for the two founders – of share-based payments accounted for under IFRS 2, as this component is to be earned through future employment services. In addition to the received cash refund of EUR 1,050k, windeln.de SE agreed on a purchase price refund of EUR 2,128k that is to be netted with subsequent purchase price payments, and on changes on those subsequent purchase prices (Earn Out and share-based payment). The subsequent purchase price does not only comprise three parts (2015, 2016, 2017) but four parts (2015, 2016, 2017, 2018). In addition, the calculation of the contingent consideration has been adjusted:

- The contractually agreed and growth-based revenue multipliers have been decreased; and a performance condition of the SDAX performance index has been added.
- The Split Factor of the years 2016 and 2017 has been decreased from 15% to 10%. The calculation of the subsequent purchase price of 2018 is also based on 10% of the previously calculated future valuation.
- In addition, the contingent consideration depends on the future EBIT development and on the additional future funding requirements of the Feedo Group. If the EBIT of a year is lower than the contractually agreed EBIT, the subsequent purchase price of the respective year decreases by the shortfall adjusted by a multiplier. In addition, the purchase price decreases if additional funding of the Feedo Group exceeds the EBIT shortfall.

The subsequent purchase price payment of 2015 is not affected by the adjustments mentioned above.

In addition, it has been agreed that the two founders are required to remain employed in the Group for 42 months instead of 36 months beginning on July 3, 2015, in order to achieve the full subsequent purchase price. According to IFRS 2, the prolongation of the vesting period does not affect the valuation of the equity-settled share-based payment awards as the prolongation is unfavorable. This results in a continuation of the total share-based payment expense that is recognized on a straight-line basis over 36 months.

The amount of subsequent purchase price payments is based on revenue growth in relation to the business with customers in Poland, the Czech Republic and Slovakia for the years 2014 to 2017 and comprises four parts (2015, 2016, 2017 and 2018). Based on the annual revenue growth realized, a contractually agreed revenue multiplier will be calculated in each case which forms the basis for the future valuation. For the years 2016, 2017 and 2018, that multiplier is additionally impacted by the development of the SDAX performance index. For the year 2015, each of the three beneficiaries receives one part each of the subsequent purchase price for their parts based on 15% of the previously calculated future valuation, for the years 2016, 2017 and 2018 based on 10% of the previously calculated future valuation. If actual IFRS earnings before taxes (EBIT) of the Feedo Group of the years 2016, 2017 and 2018 fall below a contractually fixed amount, subsequent purchase prices are reduced by the shortfall, applying a multiplier. If additional funding requirements exceed the EBIT shortfall, the subsequent purchase prices will also be reduced by this amount. The subsequent purchase prices calculated under this method are then netted against the purchase price refund. The issuance of shares in windeln.de SE is to be settled by payment of the nominal value of EUR 1.00. The number of shares is determined based on the amount of the respective subsequent purchase price and the applicable unweighted average closing price of the windeln.de share in the month of March that follows the corresponding year. The subsequent purchase price will be settled in March of the following year at the share price of the windeln.de share applicable at that time. However, windeln.de SE is also entitled to settle the amount in cash.

The fair value of the subsequent purchase price payments for the years 2015 to 2018 is partially (2015, 2016) measured by actual amounts and partially by estimates on planned revenues, EBIT and cash flows for the years 2017 and 2018, and on the future development of the SDAX performance index based on a Monte Carlo simulation. Using a discount rate of 3.99%, a fair value of EUR 5,227k was calculated for the subsequent purchase prices for the years 2015 to 2018. As of December 31, 2016, the subsequent purchase prices for the years 2015 to 2018 can achieve a maximum undiscounted value of EUR 16,617k, but no less than EUR 3,645k. Those amounts do not yet include the netting with the purchase price refund of EUR 2,128k.

Share-based payments

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

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

This results in share-based payment that has to be reported separately pursuant to IFRS 2, as real equity instruments are granted in return for work. The shares prepaid to the founders are recognized within other non-financial assets. The prepayment was reduced in 2016 by EUR 193k, recognized as personnel expense within administrative expenses. As of December 31, 2016, the corresponding non-current portion amounts to EUR 96k (December 31, 2015: EUR 289k), and the current portion amounts to EUR 192k (December 31, 2015: EUR 192k). This part of the purchase price was not affected by the adjustments mentioned above.

The fair value of the share-based payment obligations amounts to EUR 2,887k as of December 31, 2016. In relation to the share-based payment issued in the course of the subsequent purchase price, the factor “revenue growth” must be classified as a vesting condition in the form of a performance condition that is not dependent on market development, as it was worded in combination with a service condition. Pursuant to IFRS 2.19, performance conditions that are not dependent on market development are not taken into account when estimating the fair value of the stock options at the measurement date. Instead, vesting conditions must be taken into account by adjusting the number of equity instruments included in the measurement of the transaction amount. This means that, despite their classification as equity-settled share-based payments, the structure of the share options may lead to a potential change in the distributable total fair value of the stock options granted at the end of any reporting period. Ultimately this amounts to remeasurement of the fair value at the end of each reporting period. The corresponding personnel expense is recognized ratably over the vesting period of 36 months on a straight-line basis. Since it is planned to settle the subsequent purchase price with real equity instrument (shares), expenses are recognized within share premium, pursuant to IFRS 2. EBIT adjustments, funding requirements and the development of the SDAX performance index do also qualify as performance condition that is not dependent on market development.

Until December 31, 2016, no founder has left the Group. As of December 31, 2016 a leaver event is probable. The likelihood of that event was considered in the measurement of the fair value of the subsequent purchase price of the years 2017 and 2018, and it is recognized within share-based compensation.

The amount of share-based compensation to members of the local management recognized within share premium increased from EUR 1,006k on December 31, 2015, to EUR 1,807k on December 31, 2016, considering all the adjustments described. Personnel expenses of EUR 801k were recognized within administrative expenses.

Earn Out

As of December 31, 2016, the fair value of the contingent consideration amounts to EUR 2,340k, compared to EUR 3,338k as of December 31, 2015. The change in fair value of EUR 998k is recognized within financial income. The Earn Out obligation is recognized in other current financial liabilities with EUR 1,841 (December 31, 2015: EUR 1,232k), and in other non-current financial liabilities with EUR 499k (December 31, 2015: EUR 2,106k).

As outlined above, one of the founders might leave the Group in the first six months of 2017. When such a leaver event occurs, windeln.de has the right to claim back shares at a favorable price. This claim qualifies as a contingent asset with a probable occurrence, but which is dependent on an uncertain future event. Pursuant to IAS 37.31, no asset was recognized.

Claims from purchase price refunds

In the course of renegotiations with one of the investors and the two founders of the Feedo Group, a purchase price refund of EUR 2,128k was agreed. Since the purchase price refund is to be netted with subsequent purchase price payments for the years 2015, 2016, 2017 and 2018, the claim is recognized as other financial asset. As the claim is not interest-bearing, the amount was discounted. The present value of the claim amounts to EUR 2,051k as of May 6, 2016. As of December 31, 2015, the present value of the claim amounts to EUR 2,075k, of which EUR 1,484k is recognized as other current financial asset, and EUR 591k is recognized as other non-current financial asset. The change in present values from May 6, 2016, to December 31, 2016, of EUR 24k was recognized was financial income.

Sensitivity analysis

The calculation of the fair value of subsequent purchase prices are based on actual values (revenues 2015 and 2016, EBIT 2016) as well as on assumptions (revenues 2017 and 2018, EBIT 2017 and 2018). The revenue planning approved by the management board and supervisory board for 2017 and 2018 are used as a guide. Based on the budgeted figures, scenarios are then calculated using various assumptions concerning revenue development. Based on the revenue calculated in this way, payments are determined using the purchase price clauses and are discounted at an interest rate of 3.99%. The actual development of revenue and EBIT can deviate from the assumed revenue development. In addition, the fair value of subsequent purchase prices is dependent on the actual (2016) and future (2017 and 2018) development of the SDAX performance index. The future development of the SDAX performance index is measured in a Monte Carlo simulation.

A 10% increase in revenues in the years 2017 and 2018 compared to the planning would result in an increase of EUR 230k in the share-based payment obligation. A 10% decrease in revenues in the years 2017 and 2018 compared to the planning would result in a decrease of EUR 508k in the share-based payment obligation.

A 10% increase in revenues in the years 2017 and 2018 compared to the planning would result in an increase of EUR 116k in the Earn Out liability. A 10% decrease in revenues in the years 2017 and 2018 compared to the planning would result in a decrease of EUR 268k in the Earn Out liability.

Subsequent accounting for the acquisition of Bebitus S.L.

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

From an economic perspective, the subsequent purchase price is composed of contingent purchase price payments (Earn Outs), short-term employee benefits (2015) and share-based payment obligations that can be settled in either cash or with equity instruments (2016 and 2017).

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

The fair value of the subsequent purchase price payments is partially (2015, 2016) measured by actual amounts and partially by estimates on planned revenues for the year 2017. Additionally, it depends on the future development of the Tec-DAX performance index which was estimated for 2015 using a Monte Carlo simulation. Using a discount rate of 3.99%, a total fair value of EUR 16,684k was calculated as of December 31, 2016, the subsequent purchase prices for the years 2015 to 2017 can achieve a maximum undiscounted value of EUR 43,013k, but no less than EUR 13,604k.

Short-term employee benefits and share-based payments

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

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

- Short-term employee benefits

Short-term employee benefits are accounted for according to IAS 19R.8. They are settled in cash. This part of the economic purchase price had already vested as of December 31, 2015. The major portion of the fair value was recognized in the year 2015 as personnel expenses within administrative expenses. The undiscounted obligation is recognized within other current non-financial liabilities. As of December 31, 2016, the fair value amounts to EUR 2,333k (December 31, 2015: EUR 2,271k). The fair value change of EUR 62k was recognized as personnel expense within administrative expenses.

- Share-based payments

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

The fair value of share-based payment obligations amounts to EUR 10,982k as of December 31, 2016. The corresponding personnel expense is recognized ratably over the vesting period of 27 months. Since it is planned to settle the subsequent purchase price with real equity instrument (shares), expenses are recognized within share premium, pursuant to IFRS 2.

The share-based payment obligations recognized within share premium increased from EUR 2,096k on December 31, 2015, to EUR 6,101k as of December 31, 2016. A total personnel expense of EUR 4,005k was recognized within administrative expenses in 2016.

Earn Out

The fair value of the contingent considerations amounts to EUR 3,369k as of December 31, 2016, compared to EUR 3,236 as of December 31, 2015 (excluding subsequent purchase price for inventories). The fair value change of EUR 133k was recognized within financial expenses. As of December 31, 2016, the full obligation amount of EUR 3,369k is recognized in other current financial liabilities (December 31, 2015: EUR 1,922k). As of December 31, 2015, the non-current obligation amounted to EUR 1,314k, it was fully reclassified into other current financial liabilities in 2016.

As of December 31, 2015, EUR 281k were recognized within other current financial liabilities in connection with subsequent purchase price payments for inventories. This part was fully settled in cash in 2016.

Sensitivity analyses

The calculation of the fair value of subsequent purchase prices are based on actual values (revenues 2015 and 2016) as well as on assumptions (revenues 2017). The revenue planning approved by the management board and supervisory board for 2017 is used as a guide. Based on the budgeted figures, scenarios are then calculated using various assumptions concerning revenue development. Based on the revenue calculated in this way, payments are determined using the purchase price clauses and are discounted at an interest rate of 3.99%. The actual development of revenue can deviate from the assumed revenue development. In addition, the fair value of subsequent purchase prices is dependent on the actual (2015 and 2016) and future (2017) development of the Tec-DAX performance index. The future development of the Tec-DAX performance index is measured in a Monte Carlo simulation.

A 10% increase in revenues in the year 2017 compared to the planning would result in an increase of EUR 4,825k in the share-based payment obligation. A 10% decrease in revenues in the year 2017 compared to the planning would result in a decrease of EUR 2,464k in the share-based payment obligation.

No sensitivity analyses were calculated for Earn Out obligations and for short-term employee benefits, as the fair values of those contingent considerations are not measured by assumptions, but by actual values.

7. Fair Value hierarchy

Accounting policy

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

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

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

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

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

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

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

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

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

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

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

Recognition in group financial statements

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

kEUR	Valuation date	Level 1	Level 2	Level 3
Contingent consideration	December 31, 2016	-	-	5,709
Contingent consideration	December 31, 2015	-	-	6,574

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

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

Significant accounting judgments and estimates

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

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

8. Notes to the consolidated statement of financial position

8.1 Intangible assets

Accounting policy

Software licenses

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

Internally developed software

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

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

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

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

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

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

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

Internet domains

These are purchased intangible assets with an indefinite useful life that are not amortized. The useful life of each individual domain is reviewed annually to determine whether the assessment of the indefinite useful life continues to be supportable. If not, the change in assessment of the useful life from indefinite to finite is made on a prospective basis.

Each individual domain or cash-generating unit is tested at least once a year for impairment. Pursuant to IAS 36, an impairment loss is recognized on the carrying amount of a domain as soon as the estimated recoverable amount of the asset falls below its carrying amount. A reversal of impairment loss to amortized cost takes place if the reason for the impairment loss no longer exists.

Intangible assets acquired in business combinations

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

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

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

Goodwill

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

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

Goodwill is monitored at the level of the business segment.

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

Recognition in group financial statements

kEUR	Goodwill	Software, licenses and similar assets	Capitalized software development costs	Internet domains	Customer bases	Assets under construction	Total
Costs as of							
January 1, 2016 R	**902**	**169**	**2,973**	**27,385**	**332**	**698**	**32,459**
Changes in scope of consolidation	-	-	-	-	-	-	-
Currency differences	67	0	-	-455	2	-	-386
Additions	-	1,305	808	64	-	-683	1,494
Disposals	-	-5	-773	-	-	-	-778
as of December 31, 2016	969	1,469	3,008	26,994	334	15	32,789
Accumulated amortization as of							
January 1, 2016	**-**	**58**	**1,079**	**-**	**111**	**-**	**1,248**
Currency differences	-	0	-	-	2	-	2
Additions (amortization)	-	235	755	-	75	-	1,065
Additions (impairment losses)	-	-	-	-	-	-	-
Disposals	-	-3	-692	-	-	-	-695
as of December 31, 2016	-	290	1,142	-	188	-	1,620
Carrying amount							
as of December 31, 2015 R	902	111	1,894	27,385	221	698	31,211
as of December 31, 2016	969	1,179	1,866	26,994	146	15	31,169

kEUR	Goodwill	Software, licenses and similar assets	Capitalized software development costs	Internet domains	Customer bases	Assets under construction	Total
Costs as of							
January 1, 2015	**482**	**42**	**2,211**	**1,840**	**228**	**-**	**4,803**
Changes in scope of consolidation	420	-	-	25,562	78	-	26,060
Currency differences	-	-	-	-80	26	-	-54
Additions	-	127	1,017	63	-	698	1,905
Disposals	-	-	-255	-	-	-	-255
as of December 31, 2015 R	902	169	2,973	27,385	332	698	32,459
Accumulated amortization as of							
January 1, 2015	**-**	**33**	**683**	**-**	**44**	**-**	**760**
Currency differences	-	-	-	-	-	-	-
Additions (amortization)	-	25	607	-	67	-	699
Additions (impairment losses)	-	-	-	-	-	-	-
Disposals	-	-	-211	-	-	-	-211
as of December 31, 2015	-	58	1,079	-	111	-	1,248
Carrying amount							
as of December 31, 2014	482	9	1,528	1,840	184	-	4,043
as of December 31, 2015 R	902	111	1,894	27,385	221	698	31,211

Own work capitalized in the reporting period of EUR 549k (2015: EUR 781k) relates to capitalized development costs and software. In-progress development projects amount to EUR 64k as of the end of the reporting period (December 31, 2015: EUR 676k).

The amortization and impairments of intangible assets are recognized in the 2016 reporting period with EUR 4k, (2015: EUR -) in cost of sales, EUR 733k, (2015: EUR 504k) in selling and distribution expenses, EUR 204k, (2015: EUR 9k) in administrative expenses and EUR 124k, (2015: EUR 186k) in discontinued operations.

There are no restrictions on rights of disposal of intangible assets. No intangible assets were pledged as collateral for liabilities. As in the prior reporting period, there was no indication of impairment pursuant to IAS 36 on the date of preparing the financial statements.

The impairment testing for goodwill, in-progress development projects and domains did not require any impairment charges, as the recoverable values were higher than the carrying amounts.

Significant accounting judgments and estimates

Intangible assets with definite useful life

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

Intangible assets with indefinite useful life

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

The annual impairment test did not reveal an indication for an impairment. The results of that test are based chiefly on the management assumptions presented. To validate these results, the assumptions made were subjected to sensitivity analyses where the impact of a change in parameters on the values was calculated.

- Sensitivity analysis for Goodwill

A reduction in the average growth rate for the extrapolation of cash flows outside of the planning period from 1.3% to 0.0% as part of the sensitivity analysis did not lead to impairment for any of the CGUs tested as of the end of the reporting period.

Likewise, a 1.0% increase in the pre-tax interest rates as part of the sensitivity analysis did not result in the need for any impairment charges for the CGUs

The sensitivity analysis of the expected EBITDA margin shows that the CGUs don't require an impairment charge in the case of a 1.0% reduction.

- Sensitivity analysis for internet domains

A sensitivity analysis for the domains of the windeln.ch and Feedo CGUs did not result in any need for impairment charges. In the case of the domains of the Bebitus CGUs, a 1.0% increase in the pre-tax interest rate and a reduction in the growth rate to 0.0% would lead to an impairment charge of a single-digit percent range.

Notes on the annual impairment tests

The management board monitors and manages Group performance based on the different business models and geographical regions. Due to the acquisitions in 2015, the number of cash-generating units increased, in addition to Switzerland it now comprises Spain, France, Portugal, Czech Republic, Slovakia and Poland. As a consequence of the retrospective purchase price adjustment (note 3.4), no Goodwill impairment test is required for the three CGUs of the Feedo Group.

In addition, domains with indefinite useful lives must be allocated to the individual CGUs and must also be tested for impairment. In Switzerland, these domains are windeln.ch, kindertraum.ch and toys.ch. The Feedo Group bears the domains feedo.cz, feedo.sk and feedo.pl. Bebitus is established on the Spanish market and also has operations in France and Portugal. It bears the domains bebitus.com, bebitus.es, bebitus.fr and bebitus.pt.

The carrying amounts of the individual CGUs and domains are as follows:

kEUR	**windeln.ch** (with CGU Switzerland)	**Feedo** (with CGUs Czech Republic, Slovakia, Poland)	**Bebitus** (with CGUs Spain, France, Portugal)
Carrying amount of the domains	1,945	13,712	11,121
Goodwill	549	-	420

The Group performed its annual impairment test as of November 30, 2016. The recoverable amount of the individual CGUs was determined by calculating the value in use, which is based on the projected cash flows of the individual entities. The cash flow projections stem from the financial plans for the period of five years as approved by the management board and the supervisory board. As the management plans show that the CGUs have not yet reached their steady state as of the end of the period, the reconciliation to the steady state was planned using a three-year transition period with falling growth rates and increasing EBITDA margins. This state was extrapolated using a perpetual growth rate of 1.3%.

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

	windeln.ch	**Feedo**	**Bebitus**
expected EBITDA margin	10.4%	n/a	10.2%
Growth rate	1.3%	1.3%	1.3%
Discount rate	13.0%	12.8%	14.9%

The assumed growth rates are based on experience and past values as well as expectations concerning future market developments in the individual countries. In order to assume growth rates, overall market expectations were combined with expected market shares of the windeln.de Group, that eventually resulted in the expected market development of the individual countries. In addition to market growth, the expected EBITDA margin is a significant assumption; it is based on historic experience, economies of scale from the Group growth, and on expected synergies from the acquisitions made in 2015. The EBITDA margin is mainly affected by the operating contribution (gross margin reduced by fulfilment costs and marketing costs). The forecasts are reviewed for their budget adherence. Overruns or shortfalls of the actual values compared to the previously planned values are considered in the current planning process which is the basis for the latest impairment test.

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

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

Based on the expectations and findings presented, no impairments were identified for Goodwill or for individual domains with indefinite useful lives as of the end of the reporting period. Due to their immaterial amount, in-progress development projects were not tested for impairment. As of December 31, 2016, three in-progress development projects with a total volume of EUR 64k are capitalized, the largest individual project has a carrying amount of EUR 38k.

8.2 Fixed assets

Accounting policy

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

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

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

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

- Furniture and fixtures 3 to 7 years
- Technical equipment 10 years
- Leased items of fixed assets expected lease term (1-4 years)
- Leasehold improvements expected lease term (3 years)

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

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

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

Recognition in group financial statements

kEUR	Leasehold improve-ments	Technical equipment and machinery	Furniture and fixtures	Furniture and fixtures from finance leases	Assets under construction	Total
Costs as of						
January 1, 2016	**94**	**318**	**1,373**	**153**	**152**	**2,090**
Changes in scope of consolidation	-	-	-	-	-	-
Currency differences	1	0	-3	0	0	-2
Additions	12	594	292	143	-148	893
Disposals	-12	-464	-453	-17	-	-946
as of December 31, 2016	95	448	1,209	279	4	2,035
Accumulated depreciation as of						
January 1, 2016	**14**	**18**	**651**	**73**	**-**	**756**
Currency differences	1	0	-1	0	-	-
Additions	35	180	425	68	-	708
Disposals	-2	-72	-213	-7	-	-294
as of December 31, 2016	48	126	862	134	-	1,170
Carrying amount						
as of December 31, 2015	80	300	722	80	152	1,334
as of December 31, 2016	47	322	347	145	4	865

kEUR	Leasehold improve-ments	Technical equipment and machinery	Furniture and fixtures	Furniture and fixtures from finance leases	Assets under construction	Total
Costs as of						
January 1, 2015	**-**	**-**	**723**	**140**	**-**	**863**
Changes in scope of consolidation	-	89	14	-	-	103
Currency differences	-	-	48	-	-	48
Additions	94	229	600	13	152	1,088
Disposals	-	-	-12	-	-	-12
as of December 31, 2015	94	318	1,373	153	152	2,090
Accumulated depreciation as of						
January 1, 2015	**-**	**-**	**353**	**30**	**-**	**383**
Currency differences	-	-	-	-	-	-
Additions	14	18	309	43	-	384
Disposals	-	-	-11	-	-	-11
as of December 31, 2015	14	18	651	73	-	756
Carrying amount						
as of December 31, 2014	-	-	370	110	-	480
as of December 31, 2015	80	300	722	80	152	1,334

Depreciation expenses are recognized in the 2016 reporting period with EUR 12k in cost of sales (2015: EUR 4k), with EUR 393k in selling and distribution expenses (2015: EUR 163k), with EUR 176k in administrative expenses (2015: EUR 134k), and with EUR 127k in discontinued operations (2015: EUR 83k).

As of December 31, 2016, contractual commitments for the acquisition of fixed assets amount to EUR 22k (December 31, 2015: none).

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

8.3 Financial assets

<u>Accounting policy</u>

Definition of a financial instrument

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

Initial recognition and measurement

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

- Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading (hft) or classified by management as financial assets at fair value through profit or loss from the outset. A financial asset is classified under this category if it was principally purchased with the intention to resell it in the short term or if the financial asset was designated accordingly by management. Derivatives are also allocable to this category if they are not designated as a hedging instrument in effective hedging relationships. As of December 31, 2016, and December 31, 2015, there were no financial assets in the “held for trading” category. In 2016 and in 2015, management did not make use of the option to classify financial assets as financial assets at fair value through profit or loss upon initial recognition.

- Loans and receivables

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

- Held-to-maturity investments

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

- Available-for-sale financial assets

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

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

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

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

Subsequent measurement

Subsequent measurement of the financial assets depends on the classification.

- Financial assets at fair value through profit or loss

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

- Loans and receivables

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

- Held-to-maturity investments

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

- Available-for-sale financial assets

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

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

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

Impairment of financial assets

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

- Financial assets measured at amortized cost

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

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

- Available-for-sale financial assets

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

Derecognition of financial assets

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

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

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

Recognition in group financial statements

Trade receivables

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

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

kEUR	Cost	Not past due and not impaired	Past due but not impaired < 30 days	30 - 90 days	> 90 days	Past due and impaired
December 31, 2016	4,440	933	405	388	380	2,334
December 31, 2015	2,974	915	1,521	12	-	526

As of December 31, 2016, impairment charges of EUR 1,778k were recognized due to default risks (December 31, 2015: EUR 505k). With regards to receivables that are not past due and not impaired, there are no indications that the debtors will not settle their payment obligations.

The account for impairment losses developed as follows:

kEUR	2016	2015
As of January 1	505	325
Addition	1,778	505
Utilization	342	325
Reversal	9	-
As of December 31	**1,932**	**505**

The write-downs due to uncollectible receivables amount to EUR 342k in the 2016 reporting period (2015: EUR 507k).

In the 2016 reporting period, past due and impaired receivables with a nominal value of EUR 135k (2015: EUR 1,143k) were sold, leading to derecognition from the statement of financial position. The Group recorded sales proceeds of EUR 58k on this transaction (2015: EUR 617k). Also in the reporting period, receivables not yet past due and not yet impaired with a nominal value of EUR 18,477k (2015: EUR 17,988k) were sold, leading to derecognition from the statement of financial position. The Group recorded sales proceeds of EUR 18,014k on this transaction (2015: EUR 17,721k).

In the course of selling these receivables, the Group retains immaterial duties; these include first and foremost the provision of settlement services in relation to the merchandise sold, such as responding to general customer inquiries and processing returns and complaints. Regardless of the sale of receivables, risks in connection with these duties remaining with the Group are taken into consideration in the consolidated financial statements.

Other financial assets

kEUR	December 31, 2016	December 31, 2015 R
Time deposits	2,500	-
Compensation from seller guarantees	591	881
Restricted cash	10	-
Lease deposits	45	33
Other non-current financial assets	**3,146**	**914**
Accrued advertising contributions and supplier rebates	3,131	1,859
Time deposits	1,875	-
Compensation from seller guarantees	1,484	2,220
Creditors with debit balances	418	688
Sundry	422	178
Other current financial assets	**7,330**	**4,945**
Other financial assets	**10,476**	**5,859**

Compensation from seller guarantees stems from a review process of the issued seller guarantees in the course of which windeln.de SE and the sellers of the Feedo Group agreed on a compensation payment. See details in note 3.4 and in note 6.

Restricted cash was pledged as security for lease guarantees.

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

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

Additional information on financial instruments

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

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

kEUR	Measurement category pursuant to IAS 39	Carrying amount as of December 31, 2015 R	Amount recognized in the statement of financial position in accordance with IAS 39			Fair value as of December 31, 2015 R
			Amortized cost	Fair value in equity	Fair value through profit or loss	
Trade receivables	LaR	2,469	2,469	-	-	2,469
Other financial assets	LaR / afs	5,859	5,859	-	-	5,859
Cash and cash equivalents	LaR	88,678	88,678	-	-	88,678
Aggregated by measurement category in accordance with IAS 39						
Available for sale	afs	4	4	-	-	4
Loans and receivables	LaR	97,002	97,002	-	-	97,002
Held to maturity	htm	-	-	-	-	-

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

Other current financial assets include cooperative shares of EUR 14k (December 31, 2015: EUR 4k). Those assets are allocated to the “available for sale” category, but are recognized at cost because they cannot be measured.

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

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

kEUR	Interest income	Through profit or loss from subsequent measurement			In equity from subsequent measurement	Through profit or loss from disposal	Net gain/loss
		At fair value	Currency translation	Allowance			
Available for sale (afs)	0	-	-	-	-	-	0
Held for trading (hft)	-	-	-	-	-	-2,211	-2,211
Loans and receivables (LaR)	5	-	4	-1,194	-	-3,309	-4,494
Held to maturity (htm)	-	-	-	-	-	-	0
Total for financial year 2015	5	-	4	-1,194	-	-5,520	-6,705

Significant accounting judgments and estimates

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

8.4 Non-financial assets

kEUR	December 31, 2016	December 31, 2015
Prepaid expenses	234	-
Prepayment for share-based payments	96	289
Non-current non-financial assets	**330**	**289**
VAT receivables	1,973	1,418
Prepaid expense	456	606
Right to recover possession of goods	362	507
Prepayment for share-based payments	192	192
Sundry	7	4
Current non-financial assets	**2,990**	**2,727**
Non-financial assets	**3,320**	**3,016**

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

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

The items contained in prepaid expenses involve payments made for services that will not be provided until after the end of the reporting period.

As of December 31, 2016 and December 31, 2015, the Group did not hold any securities.

8.5 Inventories and prepayments

Accounting policy

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

Recognition in group financial statements

kEUR	December 31, 2016	December 31, 2015
Gross merchandise	23,480	28,547
Impairment of merchandise	-1,835	-1,448
Inventories	**21,645**	**27,099**

Inventories are impaired due to a decline in net realizable values and to slow-moving stock. Inventories of EUR 14,230k (December 31, 2015: EUR 17,137k) were pledged as collateral to secure credit lines.

All prepayments were made for upcoming deliveries of merchandise, they amount to EUR 374k as of December 31, 2016 (December 31, 2015: EUR 1,670k).

Significant accounting judgments and estimates

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

8.6 Cash and cash equivalents

Accounting policy

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

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

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

Recognition in group financial statements

kEUR	December 31, 2016	December 31, 2015
Cash at banks	50,561	88,656
Time deposits	625	-
Restricted cash	97	-
Cash on hand	19	22
Cash and cash equivalents	**51,302**	**88,678**

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

Restricted cash was pledged as security for lease guarantees, the restriction expires in the first quarter of 2017

Notes on the statement of cash flows

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

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

The negative cash flow from operating activities is attributable to the net loss for the year adjusted for non-cash effects. The main non-cash effects in 2016 are as follows:

- Expense of EUR 5,425k for share-based payments that will be or have been settled in shares or has not yet been settled in cash
- Decrease in inventories of EUR 5,454k

The negative cash flow from investing activities is primarily attributable to the purchase of mid and long-term time deposits in the amount of EUR 4,375k. Additionally, EUR 2,175k were paid for the purchase of intangible assets and fixed assets. In connection with the acquisition of subsidiaries, EUR 1,050k were paid by the sellers of the Feedo Group to windeln.de SE. See note 3.4. Furthermore, subsequent purchase price payments of EUR 281k were made for the acquisition of Bebitus, and EUR 372k were spent for the purchase of treasury shares in order to settle future Earn Out obligations.

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

kEUR	Bank Overdraft	Liabilities from finance lease	Other financial debt	Total financial liabilities
As at January 1, 2015	**1,475**	**112**	**30**	**1,617**
Currency differences (non-cash)	-	-	0	0
Additions (cash-effective)	-	-	29	29
Additions (non-cash)	-	-	-	-
Repayment (cash-effective)	-1,475	-38	-30	-1,543
Other non-cash changes (interest)	-	11	-	11
As at December 31, 2015	**-**	**85**	**29**	**114**
Currency differences (non-cash)	-	0	0	0
Additions (cash-effective)	-	-	-	-
Additions (non-cash)	-	123	-	123
Repayment (cash-effective)	-	-55	-10	-65
Other non-cash changes (interest)	-	11	-	11
Stand zum 31. Dezember 2016	**-**	**164**	**19**	**183**

8.7 Equity

Accounting policy

Treasury shares

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

Accounting for transaction costs in equity transactions

Pursuant to IAS 32.37, the directly attributable costs in connection with acquiring equity must be accounted for as a deduction from the additional equity (reduction of the share premium), taking any tax effects into account (IAS 12.61A(b)). If the transaction costs incurred are tax deductible and thus reduce the assessment base, the transaction costs to be taken into account in equity are reduced by the tax saving, and a corresponding tax receivable is recognized if requirements of IAS 12 are met. Pursuant to

IAS 32.37, only external costs that are directly attributable to the equity transaction and that otherwise would have been avoided are recognized directly in equity. Indirect costs, for example internal administrative expenses and pro rata personnel expenses, do not fall under directly attributable transaction costs and are thus expensed as incurred.

Recognition in group financial statements

Capital increases

In the end of 2015, 537,410 stock options have been exercised. The registration of the corresponding capital increase for the issuance of new shares in the Commercial Register was completed as of February 4, 2016. A further tranche of 34,734 stock options was exercised in Q3 2016. The registration of the corresponding capital increase for the issuance of new shares in the Commercial Register was completed as of October 26, 2016. As a result, issued capital increased by EUR 572k; and the share premium increased by EUR 28k compared to December 31, 2015.

In the course of the change in legal structure from windeln.de AG into windeln.de SE, capital components were renamed as follows: authorized capital 2015 was renamed into authorized capital 2016, conditional capital 2015/I was renamed into conditional capital 2016/I, conditional capital 2015/II was renamed into conditional capital 2016/II. After partial utilization, the authorized capital 2016 amounts to EUR 11,773,796. Conditional capital 2016/I and conditional capital 2016/II amount to EUR 7,997,804 and EUR 1,999,451; they remain unchanged compared to the prior year.

Issued capital

As of December 31, 2016, the issued capital of the Group parent amounts to EUR 26,318k (December 31, 2015: EUR 25,746k). It has been fully paid in and comprises 26,317,970 no-par value bearer shares.

Treasury shares

By means of a supervisory board resolution on May 13, 2016, the Management Board was authorized to purchase up to 70,000 own windeln.de shares in order to satisfy subsequent purchases prices from acquisitions. In the financial year 2016, a total of 64,683 shares was purchased in several tranches.

Share premium

As of December 31, 2016, the share premium amounts to EUR 159,993k (December 31, 2015: EUR 154,570k) and breaks down as follows:

kEUR	December 31, 2016	December 31, 2015 R
Premium from financing rounds and/or IPO	165,341	165,341
Capital increases from company funds	-25,232	-25,232
Contributions in kind	3,466	3,466
Costs of equity transactions	-5,464	-5,434
Share-based payments	21,844	16,419
Premium from exercise of stock options	38	10
Share premium	**159,993**	**154,570**

Accumulated loss

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

8.8 Employee benefits

8.8.1 Share-based payments

Share-based compensation as component of employee remuneration

Accounting policy

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

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

Description of VSOP 1 and 2

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

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

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

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

Description of VSOP 3

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

Description of LTIP – SO and RSU

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

Measurement of the programs

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

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

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

	VSOP 1 - 2	VSOP 3	LTIP - RSU	LTIP - SO
Expected volatility (%)	37.46% - 40.80%	42.43% - 43.66%	38.14% - 43.93%	38.28% - 40.60%
Risk-free interest rate (%)	0.00%	0.00%	0.00%	0.00%
Expected dividend yield (%)	0.00%	0.00%	0.00%	0.00%
Expected life of options (years)	0.25 - 4	1.75 - 2.58	4	4.2 - 4.5
Average share price on the measurement date (in EUR)	13.25	3.00	4.10 - 14.69	4.10 - 10.63

The subscription rights recognized in equity changed as follows:

	VSOP 1 - 2	LTIP - RSU	LTIP - SO
Outstanding at the beginning of the reporting period (January 1, 2016)	**140,655**	**16,563**	**21,781**
Expired during the reporting period	-	-	-
Forfeited during the reporting period	-	948	2,844
Exercised during the reporting period	34,734	-	-
Granted during the reporting period	57,755	19,449	52,401
Outstanding at the end of the reporting period (December 31, 2016)	**163,676**	**35,064**	**71,338**
Exercisable at the end of the reporting period (December 31, 2016)	163,676	34,119	68,510

For the stock options exercised in 2016, the weighted average share price as of the exercise date was EUR 4.21. The weighted average remaining contractual life for the stock options outstanding as of December 31, 2016, is one year. The weighted average fair value of the stock options granted in 2016 was EUR 4.01. The exercise price range for the equity-settled stock options outstanding as of December 31, 2016 is EUR 4.11 to EUR 18.50, if an exercise price has been set.

Presentation of the impact on profit or loss

The expense recognized in 2016 from these share-based payment obligations amounts to EUR 551k (2015: EUR 4,951k), with an income of EUR 67k relating to cash-settled share-based payments (2015: expense of EUR 69k) and an expense of EUR 618k (2015: expense of EUR 4,882k) relating to equity-settled share-based payment.

As of December 31, 2016, the carrying amount of the liability from these cash-settled share-based payment obligations is EUR 2k (December 31, 2015: EUR 69k). The obligation is recognized under non-current liabilities.

As of December 31, 2016, a figure of EUR 11,849k is reported in the share premium from these equity-settled share-based payment obligations (December 31, 2015: EUR 11,231k).

Significant accounting judgments and estimates

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

Share-based payment commitments in the course of acquisitions

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

8.8.2 Pension obligations

Accounting policy

The actuarial valuation of the pension obligation for the company pension plan is carried out using the projected unit credit method prescribed in IAS 19, where an actuarial valuation is performed at the end of each reporting period. As part of the projected unit credit method, the known pensions and vested benefits acquired as of the end of the reporting period as well as any future anticipated increases in salaries and pensions are taken into account. These assumptions may change and are subject to an estimate, as the future development is not foreseeable. Actuarial gains or losses resulting at the end of the year between the pension obligations calculated in this manner and the plan assets are recognized directly in other comprehensive income. It is not permissible to recognize the actuarial gains and losses reported in other comprehensive income in profit or loss in subsequent periods. The difference between the expected net interest and the actual result must also be reported in other comprehensive income. The interest component of the addition to the provision (interest on the liability and on the plan assets at the interest rate) contained in the pension cost is shown net (net interest) in profit or loss in the financial result. The pension provision (net pension obligation) in the statement of financial position is calculated as the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, if necessary taking into account the rules on the maximum value of surplus plan assets in excess of the obligation (referred to as the asset ceiling).

Recognition in group financial statements

The Group has defined benefit plans for its employees in Switzerland.

These retirement benefit plans are based on the second pillar of Swiss old age pensions and are designed as defined benefit plans (funded insurance). The retirement benefits in the pension plans of windeln.ch AG are based on a defined contribution plan with guaranteed minimum interest and fixed conversion rates; the death and invalidity benefits are defined as a percentage of the insured wage.

The pension plan grants benefits that go beyond the statutory minimum benefits under the Swiss Law on Occupational Pension Plans (BVG). The law provides among other things for the following framework conditions: annual salaries of up to CHF 84,600 (as of January 1, 2015) must be insured. The contributions for the retirement benefits are age-dependent and increase with age from 7% to 18% of the insured wage. The conversion rate on the retirement balance amounts to at least 6.8% at normal retirement age (65 for men and 64 for women). The pension plan must be covered in full based on a statistical assessment pursuant to the provisions of the BVG. In the event of a shortfall, the pension provider must take restructuring measures such as additional employee and employer's contributions or a reduction in benefits.

windeln.ch AG is aligned with the Vita joint foundation for occupational pensions. The foundation is a separate legal entity. The foundation is responsible for managing the pension plan. The uppermost governing body (the board of trustees) comprises an equal number of employer and employee representatives, who are elected by the member firms. The foundation must issue investment regulations which in particular define the investment strategy.

Through the plan, the Group is generally exposed to the following risks:

- Investment risk

The present value of the defined benefit obligation from the plan is calculated using a discount rate that is determined based on the returns on high-quality fixed-interest corporate bonds. If the return on plan assets falls below this interest rate, this leads to a plan shortfall.

- Interest rate risk

A drop in the coupon rate leads to a rise in plan liabilities, but this is partly compensated by increased income from investing the plan assets in fixed-interest debt instruments.

- Longevity risk

The present value of the defined benefit obligation from the plan is calculated based on the best estimate of mortality rates for the beneficiaries, both during and after their employment relationship. An increase in life expectancy of the beneficiaries leads to an increase in the plan liability.

- Salary risk

The present value of the defined benefit obligation from the plan is calculated based on the future salaries of the beneficiaries. As a result, salary increases for the beneficiaries lead to an increase in the plan liability.

The Group counters any potential concentration risk by investing the plan assets in different classes of assets.

As of December 31, 2016, the provision for pensions at windeln.ch AG amounts to EUR 126k (December 31, 2015: EUR 129k). The present value of the defined benefit obligations can be reconciled to the provisions reported in the statement of financial position as follows:

kEUR	December 31, 2016	December 31, 2015
Present value of the defined benefit obligations covered	654	686
Fair value of plan assets	528	557
Funded status / net liability of the defined benefit obligations	**126**	**129**

The expected pension cost for the 2017 reporting period is estimated at EUR 60k. The average term of the defined benefit obligation as of December 31, 2016 is 21.9 years.

Assumptions

Provisions for pensions and similar obligations are measured at the end of each reporting period using actuarial procedures. The calculation of the actuarial obligations for the pension plans was based on the following assumptions:

	December 31, 2016	December 31, 2015
Discount rate	0.60%	1.00%
Salary increase	1.50%	1.50%
Interest rate for extrapolation of retirement benefits	0.60%	1.00%
Pension increase	0.00%	0.00%

The employee turnover, mortality and invalidity rates were calculated specific to age and gender (pursuant to the BVG 2010 generation tables).

Composition of plan assets

The fund assets break down as follows:

	December 31, 2016		December 31, 2015	
	kEUR	Share as a %	kEUR	Share as a %
Equity instruments	187	35.4%	151	27.1%
Debt instruments	188	35.6%	236	42.3%
Real property	58	11.0%	59	10.7%
Other	88	16.7%	107	19.3%
Cash	7	1.3%	4	0.6%
Total plan assets	**528**	**100.0%**	**557**	**100.0%**
thereof measured on the basis of listed prices	470		498	

With the exception of real property, the entire plan assets are measured based on listed prices.

8.8.3 Termination benefits and other post-employment benefits

Accounting policy

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

Recognition in group financial statements

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

As of December 31, 2016, the severance provision amounts to EUR 25k (December 31, 2015: EUR 3k), recognized within "defined benefit obligations and other accrued employee benefits" on the consolidated statement of financial position.

8.8.4 Bonus plans

Accounting policy

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

Recognition in group financial statements

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

8.9 Provisions

Accounting policy

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

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

Provisions are not recognized for future operating losses.

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

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

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

Recognition in group financial statements

	Current		Non-current			
kEUR	Loyalty bonuses	Other	Share-based payment	Pensions	Other	Total
As of January 1, 2016	**1,932**	**289**	**69**	**132**	**221**	**2,643**
Addition	438	251	-	22	86	797
Reversal	-621	-59	-67	-4	-	-751
Utilization	-511	-57	-	-	-221	-789
Change in scope of consolidation	-	-	-	-	-	-
Currency differences	0	0	-	1	0	1
Reclassification	-	-	-	-	-	-
As of December 31, 2016	1,238	424	2	151	86	1,901
As of January 1, 2015	**1,246**	**-**	**6,349**	**57**	**-**	**7,652**
Addition	1,744	283	69	69	221	2,386
Reversal	-559	-	-	-	-	-559
Utilization	-499	-	-	-	-	-499
Change in scope of consolidation	-	6	-	-	-	6
Currency differences	-	-	-	6	-	6
Reclassification	-	-	-6,349	-	-	-6,349
As of December 31, 2015	1,932	289	69	132	221	2,643

Provisions for loyalty bonuses result from obligations of unredeemed bonus points, they are described in note 9.1.

As of December 31, 2016, other provisions include vacant spaces from rented properties, cost for dismantling leashold improvements and – for a small amount – litigation costs.

Other financial obligations

Obligations

As of December 31, 2016, future obligations from goods ordered but not yet delivered amounted to EUR 14,624k (December 31, 2015: EUR 9,430k).

Litigation, guarantees and contingent liabilities

windeln.de SE is currently involved in an out of court settlement with two of the sellers of Bebitus Retail S.L.U. on the enforcement of guarantee claims from the share purchase agreement, and on a potential reduction of subsequent purchase price components.

As of December 31, 2016 and December 31, 2015, no guarantees have been provided, and there were no contingent liabilities.

Significant accounting judgments and estimates

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

One key discretionary decision is whether to recognize a provision pursuant to IAS 37.66 for an onerous contract in relation to a vacant leased property. The calculation involves making assumptions on potential subleases in particular.

8.10 Financial liabilities

Accounting policy

Initial recognition and measurement

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

- Financial liabilities at fair value through profit or loss

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

- Financial liabilities measured at amortized cost

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

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

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

Subsequent measurement

Subsequent measurement of the financial liabilities depends on the classification.

- Financial liabilities at fair value through profit or loss

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

- Financial liabilities measured at amortized cost

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

Derecognition

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

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

Offsetting of financial instruments

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

Recognition in group financial statements

Trade payables

Trade payables are due within one year and are non-interest bearing. This item also includes outstanding invoices for goods and services accrued as of the reporting date. Trade payables are generally due in 0 to 90 days.

Financial liabilities

kEUR	December 31, 2016	December 31, 2015
Finance lease liabilities	110	54
Other financial debt	9	19
Non-current financial liabilities	**119**	**73**
Finance lease liabilities	54	31
Other financial debt	10	10
Current financial liabilities	**64**	**41**
Financial liabilities	**183**	**114**

The existing credit line agreements were renewed in 2016 in order to ensure further financial flexibility beyond equity financing.

- In March 2016, windeln.de SE extended a collateralized borrowing base credit facility agreement with Commerzbank AG for EUR 5,000k for another year. The credit facility agreement is secured in particular by inventories and assignment of receivables (blanket assignment). It also includes the usual covenants, for example, the Group has to comply with certain liquidity ratios. The credit agreement expires on March 15, 2017.
- On March 20, 2015, windeln.de SE concluded a collateralized revolving cash line agreement with Deutsche Bank AG for EUR 5,000k, for an indefinite period and secured it with inventories and assignment of receivables (blanket assignment).
- In March 2016, windeln.de SE extended a collateralized senior facility agreement with DZ BANK AG Deutsche Zentral-Genossenschaftsbank for EUR 4,000k for another year, secured by inventories and assignment of receivables (blanket assignment) and including the usual covenants, for example, compliance by the company with certain monthly liquidity ratios. The agreement expires on March 31, 2017.

The amount of the credit line was determined on the basis of inventories held, reduced by retention of ownership and a risk markdown. As of December 31, 2016, EUR 335k of the credit line had been utilized by means of rent guarantees. Fixed interest rates have been agreed for the rent guarantees. The credit line is secured by the assignment of defined warehouses as collateral and by pledging (existing and future) balances and deposits (held at the participating banks). In addition, there are covenant requirements.

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

Other financial debt as of December 31, 2016, of EUR 19k (December 31, 2015: EUR 29k) relate to a bank loan with a remaining term of two years to finance fixed assets.

Other financial liabilities

kEUR	December 31, 2016	December 31, 2015
Contingent consideration Feedo Group	499	2,106
Contingent consideration Bebitus	-	1,314
Accrued rent-free period	86	118
Sundry	4	4
Other non-current financial liabilities	**589**	**3,542**
Contingent consideration Feedo Group	1,841	1,232
Contingent consideration Bebitus	3,369	2,203
Other personnel-related liabilities	699	712
Bonus liabilities	325	541
Expected refund obligations for returns	405	574
Debtors with credit balances	1,160	330
Audit of financial statements and tax advisory services	165	162
Sundry	628	274
Other current financial liabilities	**8,592**	**6,028**
Other financial liabilities	**9,181**	**9,570**

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

Additional information on financial instruments

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

kEUR	Measurement category pursuant to IAS 39	Carrying amount as of December 31, 2016	Amount recognized in the statement of financial position in accordance with IAS 39			Amount recognized in the statement of financial position pursuant to IAS 17	Fair value as of December 31, 2016
			Amortized cost	Fair value in equity	Fair value through profit or loss		
Finance lease liabilities	n/a	164	-	-	-	164	164
Other financial debt	FLAC	19	19	-	-	-	19
Trade payables	FLAC	17,517	17,517	-	-	-	17,517
Other financial liabilities	FLAC / FLAFV	9,181	3,472	-	5,709	-	9,181
Aggregated by measurement category in accordance with IAS 39							
Financial liabilities measured at amortized cost	FLAC	21,108	21,108	-	-	-	21,108
Financial liabilities measured at fair value	FLAFV	5,709	-	-	5,709	-	5,709

kEUR	Measurement category pursuant to IAS 39	Carrying amount as of December 31, 2015	Amount recognized in the statement of financial position in accordance with IAS 39			Amount recognized in the statement of financial position pursuant to IAS 17	Fair value as of December 31, 2015
			Amortized cost	Fair value in equity	Fair value through profit or loss		
Finance lease liabilities	n/a	85	-	-	-	164	164
Other financial debt	FLAC	29	29	-	-	-	19
Trade payables	FLAC	18,137	18,137	-	-	-	18,137
Other financial liabilities	FLAC / FLAFV	9,570	2,996	-	6,574	-	9,570
Aggregated by measurement category in accordance with IAS 39							
Financial liabilities measured at amortized cost	FLAC	21,162	21,162	-	-	-	21,162
Financial liabilities measured at fair value	FLAFV	6,574	-	-	6,574	-	6,574

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

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

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

kEUR	Interest expense	Through profit or loss from subsequent measurement: At fair value	Currency translation	Allowance	In equity from subsequent measurement	Through profit or loss from disposal	Net gain/loss
Financial liabilities measured at amortized cost (FLAC)	-10	-	-22	-	-	-	-32
Financial liabilities measured at fair value through P&L (FLAFV)	-	-755	-	-	-	-	-755
Total for financial year 2015 R	-10	-755	-22	-	-	-	-797

Disclosures on capital management

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

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

The Group manages its capital structure on the basis of various ratios such as the equity ratio and, if necessary, makes adjustments to it in light of changes in economic conditions.

8.11 Non-financial liabilities

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

kEUR	December 31, 2016	December 31, 2015
Other employee benefits pursuant to IAS 19	2,333	2,271
Outstanding stock options issued to employees	-	527
Liabilities from social security	484	339
VAT liabilities	330	417
Other	125	31
Current non-financial liabilities	**3,272**	**3,585**

Other employee benefits pursuant to IAS 19 result from the acquisition of Bebitus, see note 6.

At the end of 2015, beneficiaries exercised stock options, for which they paid EUR 527k. Because the new shares were not issued until the start of 2016, the amounts paid in as of December 31, 2015 were recognized under other non-financial liabilities.

Current non-financial liabilities do not bear interest.

8.12 Income taxes and deferred taxes

Accounting policy

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

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

Deferred tax is measured using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period and that are expected to apply to the period when the asset is realized or the liability is settled. Deferred tax is recognized for all temporary differences between the tax base of the assets and liabilities and their carrying amounts in the IFRS financial statements as well as for unused tax losses (liability method).

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

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

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

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

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

Recognition in group financial statements

The major components of income tax expense and benefits for the financial years 2016 and 2015 are:

kEUR	2016	2015
Current income taxes	29	8
Actual income taxes	**29**	**8**
Deferred taxes from temporary differences	-35	-30
Deferred taxes from tax losses	22	17
Deferred taxes	**-13**	**-13**
Income tax benefits (-) and expense (+)	**16**	**-5**

Current taxes in Germany are calculated by applying a uniform corporate income tax rate including solidarity surcharge of 15.83% (2015: 15.83%) to distributed and retained profits. In addition to corporate income tax, trade tax is levied on profits generated in Germany. Taking into account the non-deductibility of trade tax as a business expense, the average rate for trade tax is 16.79% (2015: 17.15%), resulting in an overall tax rate in Germany of 32.62% (2015: 32.98%). windeln.de SE's deferred tax assets and liabilities were measured using the aggregate tax rate of 32.98% (December 31, 2015: 32.98%).

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

- Italy – 31.4%
- Poland – 19%
- Romania – 16%
- Switzerland – 20.67%
- Spain – 25%
- Czech Republic – 19%

A reconciliation of income tax expense and the result of multiplying the result for the year with the effective tax rate of the Group for the financial years 2016 and 2015 is as follows:

kEUR	2016	2015 R
Earnings before income taxes from continuing operations	-34,449	-22,355
Earnings before income taxes from discontinued operations	-7,508	-6,662
Earnings before income taxes	**-41,957**	**-29,017**
Expected income tax benefit (-) and expense (+)	-12,819	-9,140
Unused tax losses without deferred tax assets	11,597	7,874
Unrecognized deferred tax assets arising on temporary differences	378	249
Unrecognized deferred tax assets arising on permanent differences	-	225
Unrecognized deferred tax liabilities arising on permanent differences	-764	-
Unrecognized deferred tax assets arising on transaction costs in equity	-10	-1,605
Non-deductible operating expenses	1,700	1,500
Non-taxable expense / income	-179	907
Effects from changes in effective tax rates	101	-
Other effects	12	-15
Effective tax benefit (-) and expense (+)	**16**	**-5**
Expected tax rate (in %)	30.55%	31.50%
Effective tax rate (in %)	-0.04%	0.02%

In 2016 as in 2015, the non-deductible operating expenses mainly related to considerations from the acquisition of windeln.ch AG, the Feedo Group and Bebitus classified as share-based payment obligations and other employee benefits. See note 6.

The non-taxable expense in 2016 and 2015 relates to the contingent refund and the contingent considerations resulting from the acquisition of windeln.ch AG, the Feedo Group, and Bebitus. See note 6.

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

kEUR	December 31, 2016	December 31, 2015 R
Tax-loss carry-forwards	32,911	20,683
Inventories	130	173
Other current provisions	526	172
Other non-current provisions	23	-
Other current financial liabilities	35	49
Defined benefit obligations and other accrued employee benefits	34	24
Trade receivables	44	2
Other	35	6
Deferred tax assets	**33,738**	**21,109**
Intangible assets	6,714	6,823
Deferred tax liabilities	**6,714**	**6,823**
After netting:		
Deferred tax assets (total)	**33,081**	**19,726**
Deferred tax liabilities (total)	**6,057**	**5,440**
Thereof recognized in the statement of financial position (deferred tax assets)	10	2
Thereof recognized in the statement of financial position (deferred tax liabilities)	6,057	6,137

German loss carry-forwards for corporate income tax totaled EUR 91,490k (December 31, 2015: EUR 60,466k), German loss carry-forwards for trade tax totaled EUR 89,695k (December 31, 2015: EUR 59,326k), and foreign tax-loss carry-forwards totaled EUR 12,242k (December 31, 2015: EUR 4,561k).

Deferred tax assets on German loss carry-forwards only have to be recognized in the amount in which deferred tax liabilities are recognized, because windeln.de SE and Cunina GmbH have no profit history. Deferred tax assets on tax-loss carry-forwards of EUR 30,290k (December 31, 2015: EUR 19,743k) were not recognized as of December 31, 2016. The tax-loss carry-forwards can be used for an unlimited period and do not expire. Due to the positive earnings trend based on the future business plans and the existing loss carryforward options, management expects it will be possible to use the German loss carryforwards in full.

No deferred tax assets were recognized on foreign tax-loss carry-forwards in Spain, Poland, and the Czech Republic due to the loss histories of Feedo Sp. z o.o., MyMedia s.r.o. and Bebitus Retail S.L.U., as well as limitations on usability. Tax-loss carry-forwards in Spain can be used for an unlimited period. Tax-loss carry-forwards in Poland and the Czech Republic expire after five years. In addition, tax-loss carry-forwards in Poland can only be partially used in subsequent years. Unrecognized deferred tax assets on tax-loss carry-forwards as of December 31, 2016 amounted to EUR 1,334k in Spain, EUR 800k in Poland and EUR 452k in the Czech Republic. Unrecognized deferred tax assets on tax-loss carry-forwards as of December 31, 2015 amounted to EUR 295k in Spain, EUR 390k in Poland and EUR 219k in the Czech Republic.

Deferred tax assets of EUR 14k were recognized on Swiss tax-loss carry-forwards as of December 31, 2016 (December 31, 2015: EUR 36k). In both years, they were offset against deferred tax liabilities. The tax-loss carry-forwards can be used over a limited period of seven years.

There are no loss carry-forwards in Italy or Romania.

As of December 31, 2016 and 2015, no deferred tax liabilities were recognized on temporary differences associated with investments in subsidiaries. If recognized, deferred tax liabilities would have amounted to EUR 618k as of December 31, 2016 (December 31, 2015: EUR 410k)

Significant accounting judgments and estimates

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

9. Notes to the consolidated statement of comprehensive income

9.1 Revenues and other operating income

Accounting policy

Revenue and other operating income are recognized when the goods or services are delivered in accordance with the provisions of IAS 18, provided that it is likely that economic benefits will flow to the Group and the amount can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. Revenue is recorded net of sales deductions.

Revenue from the sale of goods is recognized when the goods have been delivered and the risks and rewards of ownership of the goods have been transferred to the buyer. The revenue from the sale of goods is reported net, i.e., after deducting VAT, returns, customer bonuses and rebates.

Revenue from the rendering of services is recognized over the period in which the services are rendered. For the Group's services, this mainly involves parcel inserts and marketing campaigns and/or online advertising (using banners) for which consideration is paid.

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

Expected returns

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

Loyalty points program

windeln.de SE used to offer its own stand-alone family loyalty program in the shops it operates that allows customers to collect loyalty points each time they shopped or each time they made a successful referral. The loyalty points collected can be used to obtain rebates on future purchases within 24 months. The consideration received is allocated between the products sold and the points issued, with the consideration allocated to the points equal to their fair value. The fair value of the points is calculated based on the rebates granted when redeeming the loyalty points, taking historical redemption rates into account. The fair value of the points issued is deferred, thus reducing revenue, and recognized as revenue when the points are redeemed or when they expire.

Savings plan

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

Recognition in group financial statements

Revenues

The Group’s revenue is mainly generated through the sale of baby and toddler products in Germany, Switzerland and China and, since the second half of 2015, also in Poland, the Czech Republic, Slovakia, Spain, France, Portugal and Italy.

kEUR	2016	2015 R
Revenues from continuing operations by type		
Revenue from the sale of merchandise	193,832	160,193
Revenue from other services	924	760
Commission income	-	41
	194,756	**160,994**
Revenues from continuing operations by region		
Germany, Austria, Switzerland (GSA)	54,512	54,498
China	89,383	91,068
Other/rest of Europe	50,861	15,428
	194,756	**160,994**

In 2016, expected returns after the reporting date in the amount of EUR 550k (2015: EUR 440k) were deferred from revenues from continuing operations. Refund obligations for returns are recognized within other current financial liabilities and amount to EUR 405k as of December 31, 2016 (December 31, 2015: EUR 574k). The corresponding right to recover possession of goods is recognized within current non-financial assets and amounts to EUR 362k as of December 31, 2016 (December 31, 2015: EUR 507k).

Deferred revenues of EUR 3,317k as of December 31, 2016 (December 31, 2015: EUR 4,352k) represent the Group’s unfulfilled performance obligations to customers. Those stem from customer credits due to prepayments and purchased vouchers as well as prepaid but unfulfilled performance obligations from Pampers savings plans.

The obligation from loyalty bonuses amounts to EUR 1,238k as of December 31, 2016 (December 31, 2015: EUR 1,932k). The obligation is recognized within current provisions (see note 8.9).

Other operating income

kEUR	2016	2015 R
Reimbursement of IPO costs	-	2,306
Feedo bargain purchase price	-	1,989
Gains from currency differences	827	435
Income from subleases	73	107
Other	71	256
Other operating income from continuing operations	**971**	**5,093**

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

Other operating income from the reimbursement of IPO costs results from the recharge of internal and external costs arising in connection with the IPO to investors. The bargain purchase price from the acquisition of the Feedo Group is described in note 3.4.

Significant accounting judgments and estimates

The obligations from the loyalty points program are measured based on various estimates and assumptions. Pursuant to IFRIC 13 “Customer Loyalty Programmes”, loyalty points issued and not yet redeemed are recognized at fair value. The fair value of a loyalty point is calculated based on the selling prices of the respective bonus products. Loyalty points likely to expire are not deferred. The estimate of loyalty points likely to expire is based on the redemption rates observed to date, taking into account the rules for taking part in loyalty points program.

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

9.2 Operating expenses

Accounting policy

Operating expenses are recognized in profit or loss when a service is used or when the costs are incurred.

Recognition in group financial statements

kEUR	2016	2015 R
Cost of sales from continuing operations		
Cost of materials	141,338	117,507
Personnel expenses	1,059	526
Amortization, depreciation and impairments	16	4
Other cost of sales	571	368
	142,984	**118,405**
Selling and distribution expenses from continuing operations		
Logistics expenses	30,222	17,286
Personnel expenses	11,163	6,791
Marketing	13,569	9,770
Rental expenses	4,410	3,335
thereof warehouse rent	*3,913*	*2,966*
Payment processing	2,983	3,279
Amortization, depreciation and impairments	1,126	667
Bad debts / valuation allowances	1,411	564
Other selling and distribution expenses	3,529	1,425
	68,413	**43,117**

kEUR	2016	2015 R
Administrative expenses from continuing operations		
Personnel expenses	12,417	15,865
Freelancers	497	932
Legal and consulting costs	1,956	3,050
IT environment	991	961
Recruiting	181	269
Travel expenses	137	174
Rental expenses	344	152
Amortization, depreciation and impairments	380	143
Closing expenses and audit fees	351	295
Payment transactions	40	108
Insurance	176	119
Supervisory board remuneration including out-of pocket expenses	254	176
Other administrative expenses	1,080	1,151
	18,804	**23,395**
Other operating expenses from continuing operations		
Losses from currency differences	809	480
Losses from the disposal of non-current assets	20	48
Other	10	17
	839	**545**

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

Expenses for defined benefit obligations and other accrued employee benefits

kEUR	2016	2015 R
Wages and salaries	19,579	16,760
Share-based payments	551	4,951
Share-based payments in connection with acquisitions	4,999	3,914
Social security expenses	3,443	2,307
Personnel expenses	**28,572**	**27,932**
thereof from continuing operations	24,639	23,182
thereof from discontinued operations	3,933	4,750

In 2016, the Group had an average of 543 permanent employees (2015: 398) and 83 working students (2015: 84). The contributions to the statutory pension insurance schemes amount to EUR 1,886k (2015: EUR 1,186k).

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

9.3 Financial result

Accounting policy

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

Recognition in group financial statements

kEUR	2016	2015 R
Interest and similar income	42	6
Other financial income	1,001	11
Financial income from continuing operations	**1,043**	**17**
Interest and similar expenses	22	16
Other financial expenses	157	2,981
Financial expenses from continuing operations	**179**	**2,997**
Financial result from continuing operations	**864**	**-2,980**

Other financial income in 2016 mainly relates to the change in the fair value of derivatives of EUR 998k in connection with the acquisition of the Feedo Group

Other financial expenses in 2016 mainly relate to the change in the fair value of derivatives of EUR 133k (2015: EUR 2,966k in connection with the acquisition of subsidiaries, see comments under note 6.

9.4 Earnings per share

Accounting policy

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

Pursuant to IAS 33.26, the weighted average number of shares issued during the reporting period 2015 is to be adjusted by the number of new shares issued in April 2015 of 19,831,954, because the number of shares was increased without a corresponding change in resources.

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

Recognition in group financial statements

Basic earnings per share	2016	2015 R
Profit or loss from continuing operations (kEUR)	-34,465	-22,350
Profit or loss from discontinued operations (kEUR)	-7,508	-6,662
Profit or loss for the period (kEUR)	**-41,973**	**-29,012**
Basic weighted average number of shares (thousands)	26,206	23,671
Earnings per share from continuing operations (EUR)	**-1.31**	**-0.94**
Earnings per share from discontinued operations (EUR)	**-0.29**	**-0.29**
Earnings per share (EUR)	**-1.60**	**-1.23**

Diluted earnings per share	**2016**	**2015 R**
Profit or loss from continuing operations (kEUR)	-34,465	-22,350
Profit or loss from discontinued operations (kEUR)	-7,508	-6,662
Profit or loss for the period (kEUR)	**-41,973**	**-29,012**
Diluted weighted average number of shares (thousands)	29,562	24,538
Earnings per share from continuing operations (EUR)	**-1.17**	**-0.91**
Earnings per share from discontinued operations (EUR)	**-0.25**	**-0.27**
Earnings per share (EUR)	**-1.42**	**-1.18**

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

	2016	**2015 R**
Basic profit or loss for the period (kEUR)	-41,973	-29,012
Dilution from stock options and restricted stock units (kEUR)	-	-
Dilution from contingent considerations (Earn Outs, kEUR)	-	-
Diluted profit or loss for the period (kEUR)	**-41,973**	**-29,012**
Basic weighted average number of shares (thousands)	26,206	23,671
Dilution from stock options and restricted stock units (thousands)	211	459
Dilution from contingent considerations (Earn Outs, thousands)	3,145	408
Diluted weighted average number of shares (thousands)	**29,562**	**24,538**

In connection with the error correction described in note 3.5, the dilution effect from contingent considerations was misstated by 49 thousand shares the reporting year 2015. The retrospective correction of the error pursuant to IAS 8 results in an increase of the diluted weighted average number of shares from 24,489 thousand to 24,538 thousand.

10. Leasing

Accounting policy

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

A lease is classified as a finance lease if all risks and rewards incidental to ownership are transferred to the lessee. All other leases are classified as operating leases.

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

Assets leased under operating leases are not recognized. Instead, the lease payments are expensed on a straight-line basis over the term of the lease. In the Group, significant operating leases pertain to rented business premises and fulfillment properties.

Recognition in group financial statements

Operating lease commitments

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

The expenses recognized in the reporting period from operating leases amount to EUR 1,816k (2015: EUR 1,558k).

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

kEUR	2016	2015 R
Less than one year	1,408	1,967
More than one year and up to five years	2,019	4,284
More than five years	-	-
Total	**3,427**	**6,251**

As of December 31, 2016, the Company had future minimum lease payments receivable under uncancellable operating leases for sublet office and warehouse spaces of EUR 66k (December 31, 2015: EUR 107k). EUR 63k of this is due within one year.

Finance lease commitments

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

	December 31, 2016		December 31, 2015	
kEUR	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
Less than one year	62	54	56	45
More than one year and up to five years	118	110	142	128
More than five years	-	-	-	-
Total minimum lease payments	**180**	**164**	**198**	**173**
Less finance charges	-16	-	-25	-
Present value of minimum lease payments	**164**	**164**	**173**	**173**

11. Financial risk management

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

Risk management is performed by the corporate finance department. The Group's finance department identifies and assesses financial risks in close cooperation with the Group's operating units. The management board prescribes the principles for Group-wide risk management and policies for certain risks, such as foreign currency, interest rate and credit risks, and for the use of derivative and non-derivative financial instruments, as well as the investment of cash surpluses.

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

To date, the Group has not made use of any derivative financial instruments to hedge specific risks.

11.1 Market risk

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

11.1.1 Currency risk

Accounting policy

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

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

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

		Average rate (1 EUR = 1 CU FC)		Closing rate (1 EUR = 1 CU FC)	
Country	**Currency**	**2016**	**2015**	**December 31, 2016**	**December 31, 2015**
Switzerland	CHF	1.0902	1.0678	1.0739	1.0835
Poland	PLN	4.3632	4.1841	4.4103	4.2639
Czech Republic	CZK	27.0343	27.2778	27.0210	27.0230
United States of America	USD	1.1069	1.1094	1.0541	1.0887
People's Republic of China	CNY	7.3522	6.9733	7.3202	7.0608

Recognition in group financial statements

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

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

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

Since July 2016, windeln.de SE generates revenues in China through the Chinese Tmall platform (https://windelnde.tmall.hk). Transactions are concluded in Renminbi Yuan (CNY). Receivables from customers arise in CNY, incoming customer payments are immediately converted to EUR by the payment provider, so that the company does not hold cash deposits in CNY. Due to the very short payment terms and the low amount of CNY receivables, currency risks are low, and they are currently not hedged.

Sales to Chinese customers via the “www. windeln.de” and since December 2016 via the “www.windeln.cn.com” shop are transacted exclusively in EUR.

Furthermore, in the “www.windeln.ch,” “www.toys.ch,” and “www.kindertraum.ch” shops, windeln.de SE generates revenues in Swiss francs (CHF). The foreign currency risk arising from the translation of Swiss francs is mitigated by means of natural hedging, i.e., local product procurement in CHF and sale of the merchandise to Swiss customers in CHF.

MyMedia s.r.o., which uses the Czech koruna (CZK) as its functional currency, generates approximately 40% of its revenue in Polish Zloty (PLN) and Euros (EUR) in the “www.feedo.pl” and “www.feedo.sk” shops respectively. Here too, the foreign currency risk arising from the translation primarily of Polish zloty is mitigated by means of natural hedging, i.e., local product procurement in PLN and sale of the merchandise to local end customers in PLN. With regard to revenue generated in EUR, the Czech National Bank has currently set the exchange rate such that natural hedging in respect of EUR is only being carried out to a minor extent.

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

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

Currency	FX rate as per December 31, 2016 (1 EUR = 1 CU FC)	Effect on net profit for 2016 at +10% (in kEUR)	Effect on net profit for 2016 at -10% (in kEUR)
CHF	1.0739	-605	740
PLN	4.4103	-280	274
CZK	27.0210	-307	304
USD	1.0541	17	-21
CNY	7.3202	3	-4

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

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

11.1.2 Interest rate risk

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

The parent company of the Group has concluded credit lines with variable interest rates and as such is currently exposed to an interest rate risk in relation to the financial debts. The credit lines were basically not used in 2016. As of December 31, 2016, there were no financial debts in this connection. Other financial debts exist as of December 31, 2016 in an immaterial amount. Hence, a change in the interest rate on borrowed capital would have no effect on net profit or consolidated equity as of the reporting date.

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

11.2 Credit risk

Credit risk, otherwise known as default risk, is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The scope of the credit risk of the windeln.de Group equals the sum of the trade receivables, other financial assets, and cash and cash equivalents. The maximum credit risk in the event of default by a counterparty is the carrying amount of all these named classes of financial asset as of the respective reporting date. There are no material concentration risks for the windeln.de Group.

Default risks for the windeln.de Group mainly relate to trade receivables from end customers. Credit limits are established for all end customers based on internal rating criteria. Outstanding receivables from customers are monitored on a regular basis and go through a three-stage dunning process. In addition, a framework agreement with a collection service provider has been concluded. To reduce the credit risk, flat-rate specific bad debt allowances are recognized taking into account the age structure of the receivables. Overdue receivables that have still not been paid after dunning are derecognized in full and expensed. Trade receivables arising in connection with the “buy on account” payment method are sold to a third party as they arise.

In addition, there is a credit risk for cash and cash equivalents that banks can no longer meet their obligations. This credit risk is mitigated by spreading deposits between a number of banks with good credit ratings.

11.3 Liquidity risk

The liquidity risk is the risk that the Group may not be in a position to settle its financial liabilities when they fall due. For this reason, the main objective of liquidity management is to ensure the Group’s ability to pay at all times. The Group continually monitors its risk of a shortage of funds using liquidity planning. This takes into consideration cash received and paid for financial assets and financial liabilities as well as expected cash flows from operating activities. Cash flow forecasts are prepared at Group level.

Momentarily, sufficient cash deposits are available in order to cover net cash outflows from operating activities. The Group’s mid-term objective is to ensure the flexibility of credit lines and to adjust them to the liquidity requirements arising from the future business development. Of the overall credit line of EUR 14,111k (December 31, 2015: EUR 14,000k) with four banks independent of each other, an amount of EUR 2,923k can be drawn as of the balance sheet date (December 31, 2015: EUR 5,457k). As of December 31, 2016 and 2015, no credit lines were used. Thus, the Group is not exposed to any liquidity risks at present.

The following table shows the Group’s financial liabilities broken down by maturities based on the remaining term as of the respective reporting date and the contractually agreed undiscounted cash flows. All on-demand financial liabilities are always allocated to the earliest possible date. Any variable interest payments from the financial instruments are calculated using the interest rates which were last fixed before the respective reporting date.

kEUR	Less than 3 months	3 months up to 1 year	More than 1 year
As of December 31, 2016	25,754	419	708
Financial liabilities	17	47	119
Trade payables	17,517	0	-
Other financial liabilities	8,220	372	589

12. Related parties disclosures

Related parties are all persons and companies that control the Group or exercise significant influence over it. This includes the Group's key management personnel, companies that are under the control or significant influence of such persons, close family members of such persons, and major shareholders of windeln.de SE.

Pursuant to the principles in IAS 24, the members of the management board and the supervisory board of windeln.de SE are classified as key management personnel. No shareholder of windeln.de SE has a direct or indirect significant influence on the Group. A significant influence is assumed if more than 20% of the voting rights are held directly or indirectly.

Information about the Group's structure and subsidiaries are presented under note 5. windeln.de SE is the ultimate parent company.

Terms and conditions of transactions with related parties

The sales to and purchases from related parties are made at terms equivalent to those that prevail in arm's length transactions. Outstanding balances at the year-end are unsecured, interest free and settlement is made in cash. There have been no guarantees provided or received for any related party receivables or payables. No impairment losses were recognized on receivables from related parties in the financial years 2016 and 2015.

Transactions with key management personnel

The members of windeln.de SE's management board and supervisory board were identified as related parties. The composition of the management board and the supervisory board as well as the benefits granted are described under note 13.

Furthermore, in 2016 and 2015, no transaction occurred in the normal course of business. As of December 31, 2016 and 2015, there were no outstanding receivables from the sale of goods to key management personnel.

Transactions with other related parties

In the financial year 2015, windeln.de SE received refund payments in connection with the IPO and the sale of existing shares in the Company from five different companies that are controlled by key management personnel. The payments amounted to EUR 895k; there were no outstanding receivables in this connection as of December 31, 2015. There were no comparable business transactions in the financial year 2016.

Goods to the value of EUR 3k (2015: EUR 14k) were sold to close family members of key management personnel in the financial year 2016 in the normal course of business. There were no outstanding receivables in this connection as of December 31, 2016 and 2015.

In the financial years 2016 and 2015, there were no loans from or to related parties.

13. Corporate boards and remuneration

13.1 Management board

Name	Profession	External mandates
Alexander Brand	Co-CEO and responsible for the Strategy & Acquisitions, Technology, and Business Intelligence units	ABrand Management GmbH (Managing Director)
Konstantin Urban	Co-CEO and responsible for Marketing, Product Management, and Category Management units	Bike 24 GmbH (member of the advisory board)
Jürgen Vedie (since Juli 1, 2016)	COO and responsible for Logistics, Customer Service and Procurement units	None
Dr. Nikolaus Weinberger	CFO and responsible for Finance & Controlling, Investor Relations, Legal Affairs, Human Resources, and Facility Management units	None

13.2 Supervisory board

Name	Profession	External mandates
Willi Schwerdtle, Chairman	Independent business consultant, Partner at WP Force Solutions GmbH	• adidas AG (Deputy chairman of the supervisory board) • Eckes AG (member of the supervisory board)
Dr. Christoph Braun, Deputy chairman	Managing Director of Acton Capital Partners GmbH	• Grandview GmbH (Managing Director) • Momox GmbH (Chairman of the supervisory board) • Sofatutor GmbH (Chairman of the advisory board) • Finanzcheck GmbH (member of the advisory board)

Name	Profession	External mandates
Nenad Marovac	Chief Executive Officer and Managing Partner of DN Capital (UK) LLP	• DN Capital Group (mandates in various entities of the Group) • Mister Spex GmbH (member of the supervisory board) • Shazam Entertainment Ltd. (member of the Board of Directors) • Happn S.A. (member of the Board of Directors) • Book a Tiger: BAT Household Services GmbH (member of the supervisory board) • Videdressing SAS (member of the Board of Directors) • Eve Sleep Ltd. (member of the Board of Directors) • Dojo Madness GmbH (member of the Board of Directors) • Flying Jamon Ltd. (member of the Board of Directors) • Divido Financial Services Ltd. (member of the Board of Directors) • TripleMint, Inc. (member of the Board of Directors) • Move24 Group GmbH (member of the Board of Directors) • HomeToGo GmbH (member of the Board of Directors)
Dr. Edgar Carlos Lange	CFO at Lekkerland AG & Co. KG	• Lekkerland Group (Managing Director and supervisory board member in various entities of the Group) • Comsol AG (member of the supervisory board)
David Reis (until August 31, 2016)	Executive Director in the Merchant Banking Division of Goldman Sachs (until August 31, 2016)	n/a
Francesco Rigamonti (until August 31, 2016)	Director of Private Equity and Private Markets at Deutsche Bank and Co-Head of Deutsche Bank's Global Private Equity Co-Investments	• German Access Fund L.P. (member of the Investment Committee) • DB Secondary Opportunities Fund L.P. (member of the Investment Committee) • DB Secondary Opportunities Fund II L.P. (member of the Investment Committee) • DB Secondary Opportunities Fund II L.P. (member of the Investment Committee)
Petra Schäfer (since August 31, 2016)	Globus Warenhaus Holding GmbH & Co. KG (General Manager)	GS1 Germany GmbH (member of the supervisory board)

External mandates comprise memberships in supervisory boards and other controlling bodies as of December 31, 2016, pursuant to Sec. 285 No. 10 German Commercial Code (HGB) and Sec. 125 No. 1 Stock Corporation Act (AktG). Additional, they include active positions as Board members or Managing Directors as of December 31, 2016. Non-voting positions as board observers are not disclosed as external mandates.

13.3 Remuneration report

Outline of management board compensation

The Company does not present a breakdown of remuneration by individual management board members. The management board was exempted from the disclosures pursuant to Secs. 285 No. 9 a) sentence 5 to 8, 314 (1) No. 6a sentence 5 to 8 HGB by way of a resolution of the extraordinary shareholder meeting on April 21, 2015.

Total compensation comprises fixed and variable components, and a long-term stock option plan.

The system of management board compensation at windeln.de is set up to provide an incentive for successful, long-term corporate growth. The level of compensation is appropriate to the tasks and performance of the management board. Once a year, the supervisory board reviews the appropriateness of management board compensation in consideration of the following criteria: the economic situation, the success and future development of the company, and the tasks of the individual members of the management board and their personal performance. The industry environment and the salary structure for the rest of the Company also play a role.

Fixed, non-performance-related compensation components

Management board members receive fixed compensation through their annual salary paid in equal monthly installments and benefits in kind.

Variable, performance-related compensation components

The variable compensation component rewards the performance of the management board for the last financial year in line with the development of the Company and annual targets set by the supervisory board.

Three quarters of the variable bonus depend on the achievement of certain company targets (revenues, adjusted earnings before interest and taxes, cash flows from operating activities). Based on target achievement of 100% (target bonus), the maximum of is bonus component is EUR 308k for the four management board members. For financial year 2016, the company bonus agreement of one member of the management board stipulates a minimum target achievement of 75%.

The remaining quarter of the bonus is granted by the supervisory board at its own discretion on the basis of an overall assessment of all circumstances depending on the individual performance of each individual management board member. In the event of target achievement of 100%, the maximum of both bonus elements together stands at EUR 410k. The bonus for each member of the management board is capped at 200%.

Share-based payment transactions

The issuing of entitlements to share-based payment is intended to compensate the long-term performance of the management in line with the business plans.

For one member of the management board, two share-based payment commitments were made in 2016, one cash-settled (stock options) and one equity-settled (restricted stock units, RSUs). For two members of the management board, 60% of their 2015 bonus were compensated through the issuance of 10,782 RSUs in accordance with the Long Term Incentive Program.

In addition, 145,296 stock options and 48,448 RSUs were granted to the four members of the management board. The fair values as of the grant date and the reporting date for commitment made in 2016, that are all planned to be settled in real equity instruments (shares), amount to EUR 977k (in the prior year, comparable commitments made in 2015 amount to EUR 266k). The fair value as of the reporting date of stock options granted in 2015 and settled in cash, amounts to EUR 2k as of December 31, 2016 (December 31, 2015: EUR 174k). Details of respective programs are outlined in note 8.8.1

The corresponding expense in 2016 amounts to EUR 497k. As of December 31, 2016, a provision of EUR 1k was recognized for the cash-settled share-based payment obligation. For the equity-settled share-based payment obligation, an amount of EUR 640k was recognized in the share premium as of December 31, 2016.

Benefits in kind

Benefits in kind received by the management board comprise the use of company cars.

Below, the expense recognized in the financial years 2016 and 2015 is broken down by type of compensation:

kEUR	2016	2015
Fixed salary components	730	542
Variable salary components	31	226
Expenses for share-based payments	497	144
Expenses for the vacation accrual	-62	73
Benefits in kind	72	30
Total	**1,268**	**1,015**

The Group also grants the management board members adequate insurance coverage, in particular a D&O insurance policy with a deductible in accordance with the provisions of the German Stock Corporation Act (AktG).

Supervisory board remuneration

Supervisory board compensation was approved in the extraordinary shareholder meeting on April 21, 2015 and comprises defined, non-performance-based annual payments. It is based on the responsibility and scope of activities of each supervisory board member and on the Group's economic situation. Supervisory board members, who only exercise their office as a supervisory board member or chairman for part of the financial year, receive a corresponding percentage of the compensation. The compensation for the supervisory board members falls due after the shareholder meeting that takes receipt of or decides on the approval of the consolidated financial statements for the financial year for which the compensation is being paid.

The annual supervisory board remuneration amounts to EUR 40k or EUR 80k in the case of the chairman. One member of the supervisory board waived his compensation in 2016 and 2015. In addition to the aforementioned compensation, appropriate out-of-pocket expenses incurred in connection with supervisory board activities are refunded, as well as VAT on the compensation and the out-of-pocket expenses if incurred by foreigners who are not liable to German tax. A total expense of EUR 254k was recognized for supervisory board compensation for the financial year 2016 (2015: EUR 176k).

The supervisory board members are covered by a Group D&O insurance policy.

14. Audit fees

The expense for the auditor's fees, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, including out-of-pocket-expenses, breaks down as follows:

kEUR	2016	2015
Audit services	134	140
Other assurance services	-	440
Tax advisory services	-	73
Other services	8	63
Total	**142**	**716**

15. Corporate governance declaration

windeln.de SE has submitted the declaration of compliance with the German Corporate Governance Code required by Sec. 161 AktG and made it available to its shareholders on the website http://corporate.windeln.de.

16. Events after the reporting date

Accounting policy

Transactions announced after the end of the reporting period but which took place in substance prior to the end of the reporting period are taken into account in the consolidated financial statements. Significant transactions that took place in substance after the end of the reporting period are explained.

Transactions after the reporting date

Effective February 21, 2017, the company windeln Management Consulting (Shanghai) Co., Ltd. with registered offices in Shanghai, China, was founded. The subsidiary has a share capital of EUR 150k and operates as a service company in the Chinese market for marketing activities and for the development of further distribution channels.

On February 27, 2017, the credit line with DZ BANK AG in the amount of EUR 4,000k described in note 8.10 was extended until September 2017. The credit line with Commerzbank AG in the amount of EUR 5,000k was extended until September 2017; however, the agreement was formally not yet signed as of the reporting date.

Munich, March 6, 2017

Alexander Brand | Konstantin Urban

Jürgen Vedie | Dr. Nikolaus Weinberger

Responsibility statement

To the best of our knowledge, and in accordance with the applicable reporting princibles, the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group, and the group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Munich, March 6, 2017

windeln.de SE
The management board

Alexander Brand | Konstantin Urban

Dr. Nikolaus Weinberger | Jürgen Vedie

Audit Opinion

We have issued the following opinion on the consolidated financial statements and the group management report:

"We have audited the consolidated financial statements prepared by windeln.de SE, Munich, comprising the statement of financial position, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the notes to the consolidated financial statements, together with the group management report for the fiscal year from 1. January 2016 to 31. December 2016 The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB ["Handelsgesetzbuch": "German Commercial Code"] are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit. In addition we have been instructed to express an opinion as to whether the consolidated financial statements comply with full IFRS.

We conducted our audit of the consolidated financial statements in accordance with Sec. 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU, the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB and full IFRS and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements, complies with legal requirements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development."

Munich, 6. March 2017

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Bostedt	Dr. Burger-Disselkamp
Wirtschaftsprüfer	Wirtschaftsprüferin
[German Public Auditor]	[German Public Auditor]

SERVICE

SERVICE

1. Glossary

Site visits

We define Site Visits as the number of series of page requests from the same device and source in the measurement period and include visits to our online magazine. A visit is considered ended when no requests have been recorded in more than 30 minutes. The number of site visits depends on a number of factors including the availability of the products we offer, the level and effectiveness of our marketing campaigns and the popularity of our online shops. Measured by Google Analytics.

Mobile Visit Share

We define Mobile Visit Share (in % of Site Visits) as the number of visits via mobile devices (smartphones and tablets) to our mobile optimized websites divided by the total number of Site Visits in the measurement period. We have excluded visits to our online magazine and visits from China. We exclude visits from China because the most common online translation services on which most of our customers who order for delivery to China rely to translate our website content are not able to do so from their mobile devices, and therefore very few of such customers order from their mobile devices. Measured by Google Analytics.

Mobile Orders

We define Mobile Orders (in % of Number of Orders) as the number of orders via mobile devices to our mobile optimized websites divided by the total Number of Orders in the measurement period. We have excluded orders from China. Measured by Google Analytics.

Active Customers

We define Active Customers as the number of customers placing at least one order in the 12 months preceding the end of the measurement period, irrespective of returns.

Number of orders

We define Number of Orders as the number of customer orders placed in the measurement period irrespective of returns. An order is counted on the day the customer places the order. Orders placed and orders delivered may differ due to orders that are in transit at the end of the measurement period or have been cancelled. Every order which has been placed, but for which the products in the order have not been shipped (e.g., the products are not available or the customer cancels the order), is considered “cancelled”. Cancellations are subtracted from the number of orders.

Average Orders per Active Customer

We define Average Orders per Active Customer as Number of Orders divided by the number of Active Customers in the measurement period.

Orders from repeat customers

We define Orders from Repeat Customers as the number of orders from customers who have placed at least one previous order, irrespective of returns.

Share of Repeat Customer Orders

We define Share of Repeat Customer Orders as the number of orders from Repeat Customers divided by the Number of Orders during the measurement period.

Gross Order Intake

We define Gross Order Intake as the aggregate Euro amount of customer orders placed in the measurement period minus cancellations. The Euro amount includes value added tax and excludes marketing rebates.

Average Order Value

We define Average Order Value as Gross Order Intake divided by the Number of Orders in the measurement period.

Returns (in % of Net Merchandise Value)

We define Returns (in % of Net Merchandise Value) as the Net Merchandise Value of items returned divided by Net Merchandise Value in the measurement period. From Q2/2016 onwards including Bebitus and Feedo returns.

Adj. Fulfilment Cost Ratio

We define Adj. Fulfilment Cost Ratio as adjusted fulfilment costs divided by revenues for the measurement period. Adjusted Fulfilment costs consist of logistics and rental expenses, which are recognized within selling and distribution expenses in the consolidated statement of profit and loss. Adjusted fulfilment costs exclude costs in connection with the reorganization of the Swiss and Spanish warehouses.

Marketing Cost Ratio

We define Marketing Cost Ratio as marketing costs divided by revenues for the measurement period. Marketing costs are recognized within selling and distribution expenses and consist mainly of advertising expenses, including search engine marketing, online display and other marketing channel expenses, as well as costs for our marketing tools.

Adjusted Other SG&A Expenses (in % of revenues)

We define Adjusted Other SG&A Expenses (in % of revenues) as Adjusted Other SG&A Expenses divided by revenues. We define Adjusted Other SG&A Expenses as selling and distribution expenses, excluding marketing costs and fulfilment costs, and administrative expenses as well as other operating income and expenses. Adjusted other SG&A expenses exclude expenses in connection with share-based compensation as well as expenses and income in connection with the IPO, with acquisitions and integration of new subsidiaries and expenses in connection with the expansion of the Group as well as for expenses for reorganization, internal restructuring measures and ERP system change.

2. Financial calender

Publication of the full year 2016 result:	March 15, 2017
Publication of the first quarter results 2017:	May 09, 2017
Annual General Meeting 2017:	June 02, 2017
Publication of the half year results 2017:	August 09, 2017
Publication of the nine months results 2017:	November 14, 2017

3. Imprint

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Statement relating to the future

This annual report contains statements that relate to the future and are based on assumptions and estimates made by the management of windeln.de SE. Even if the management is of the opinion that these assumptions and estimates are appropriate, the actual development and the actual future results may vary from these assumptions and estimates as a result of a variety of factors. These factors include, for example, changes to the overall economic environment, the statutory and regulatory conditions in Germany and the EU and changes in the industry.

windeln.de SE makes no guarantee and accepts no liability for future development and the actual results achieved in the future matching the assumptions and estimates stated in this interim report.

It is neither the intention of windeln.de SE nor does windeln.de SE accept a special obligation to update statements related to the future in order to align them with events or developments that take place after this report is published.

The annual report is available in English. If there are variances, the German version has priority over the English translation. It is available for download in both languages at corporate.windeln.de.





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