SLEEPZ AG

UNION FÜR SCHLAF- UND WOHNKULTUR

Q1–2 | 2017

INVESTMENT IN SLEEP

Semi-annual Statement January to June 2017

Key Figures

		HY/2017	HY/2016
Sales revenue	*in million €*	5.9	7.7
Material costs	*in million €*	-4.0	-5.4
Cost-of-materials ratio[1]	*in %*	67.8	69.5
Gross profit[2]	*in million €*	1.9	2.4
EBITDA[3]	*in million €*	-1.2	-1.0
Result from continuing operations	*in million €*	-1.5	-1.3
Consolidated net result	*in million €*	-2.2	-2.2
Earnings per share	*in €*	-0.30	-0.30
		30.06.2017	31.12.2016
Balance sheet total	*in million €*	10.7	15.3
Inventories	*in million €*	2.1	2.3
Cash on banks and cash on hand	*in million €*	2.2	0.8
Shareholders‘ equity	*in million €*	7.3	7.6
Equity ratio	*in %*	67.9	49.5
Employees		70	72

[1] material costs in relation to sales revenues
[2] sales revenues minus material costs
[3] result from continuing operations without interest, taxes and depreciations on tangible and intangible fixed assets

Dear Shareholders and Business Partners,

The company can look back on a very challenging and eventful first half year, a period which brought significant changes and in which we made essential preparations for future success.

At the beginning of May and in mid-June, that is within a relatively short period of the capital reduction that was resolved by the Extraordinary General Meeting in March and took effect on 24 April 2017, we resolved and implemented the execution of two capital increases from authorised capital while disapplying the pre-emption rights of shareholders and issuing 690,000 new shares in each case.

Although the primary objective of both measures was to strengthen liquidity and the equity base of the company, they led to cash inflows of around € 0.9 million and € 1.1 million respectively (before deducting costs). At the same time, however, we were also able to attract two strategic partners who will remain with us on our path to growth and actively support us in the future.

Heliad Equity Partners GmbH & Co. KG a.A. (Heliad) subscribed in full to the first capital measure, prior to which a few selected investors had initially been approached with regard to a private placement.
Heliad has not only proven capital market expertise and an outstanding network, but also has Cubitabo (www.bettenriese.de) – one of our competitors – in its portfolio; we continue to look into the potential for acquiring and integrating this company.

Alessanderx S.A. (Alessanderx) from Italy subscribed to the second capital measure.

Alessanderx is a leading European mattress manufacturer that sells some of its products under its "Magniflex" private label and has been successfully operating in the German market for some decades. Alessanderx will actively support us with developing products in the mattress segment and implementing projects as well as providing advice and expertise. With this in mind, we have concluded a collaborative agreement under which Alessanderx has also undertaken to hold its shares for at least five years.

A further important event in the first half of the year was the disposal of the remaining VC minority interests to a private investor at a price of € 5 million plus a 20-50% profit share in future sales proceeds plus any potential follow-up investments exceeding the selling price.
At the end of the first quarter, we had already announced our firm intention to sell the six remaining companies in a secondary transaction before the end of June if at all possible. Furthermore, it had been made very clear to us on several occasions during various discussions with investors in the run-up to the capital measures that retaining the VC shares was regarded as a clear obstacle to investing in our company.

Given the companies' carrying amount of € 5.3 million (according to IFRS) and € 4.0 million (according to the German Commercial Code (HGB)) as at 31 March 2017, we consider the purchase price achieved to be appropriate. In addition, € 3.5 million of the purchase price payment was used to redeem a loan and € 1.5 million was paid in cash, which further contributed to securing liquidity.
However, we consider the step to be absolutely correct and extremely necessary, particularly from a strategic

perspective, as the company now no longer bears any risks from the legacy business and we have now finally concluded our VC activities as a result of the transaction. We can thus now focus exclusively on our core business and on our further growth as a corporate e-commerce group in the sleep products segment.

Thanks to the measures described, our consolidated balance sheet improved substantially over the course of the first six months, with cash in hand and cash on banks increasing from € 0.8 million as at 31 December 2016 to € 2.2 million as at 30 June 2017. In parallel to this, financial liabilities declined by around € 4.3 million from € 7.7 million to € 3.4 million and the equity ratio also grew from 49.5% to 67.9% as at 30 June 2017.

The capital market essentially rated all of this positively and the price of the consolidated shares has risen by 37% from their quotation on 5 May 2017 to 31 August 2017.
Our new name, which was resolved by the Annual General Meeting on 18 August 2017, also underlines the transformation: bmp Holding AG has become SLEEPZ AG.
This now enables us to start a new chapter in the company's history.

Implementing all of these extensive one-off events demanded a lot of our resources and despite the capital increases, our liquidity position remained tight in the second quarter, particularly as we have also significantly decreased our liabilities. In particular, we remained unable to ramp up the marketing expenditure required for healthy growth again significantly and the availability of key products also suffered at times. This continues to be clearly reflected – as previously at the end of the first quarter – in the consolidated revenues generated by SLEEPZ AG in the first half of the year; at € 5.9 million, these were significantly below the prior-year figure of € 7.7 million.
In addition to the financial restrictions, we were also adversely affected by the market environment as, in particular, well-funded mattress start-ups drove prices to a level at which online retailers can no longer profitably compete in order to gain reach. We assume, however, that this trend will not go on forever and that we will make up the shortfall again in the second half of 2017.

SLEEPZ AG ended the first six months of the 2017 financial year with consolidated earnings of minus € 2.2 million. Of this net loss for the period, € 754 thousand is attributable to the discontinued operation incorporating the former venture capital business. Besides the loss realised from selling the residual portfolio and deconsolidation of the ReFer GmbH subsidiary, the ongoing service agreement for managing and selling the venture capital portfolio led to the negative result. This contract was terminated by mutual agreement in the third quarter, thus reducing costs by € 150 thousand in the second half of 2017.
The consolidated result from ordinary business activities amounted to minus € 1.5 million compared to minus € 1.3 million in the previous year.

€ 432 thousand of the negative result was attributable to our Grafenfels Manufaktur GmbH subsidiary, which developed and marketed its own line of mattresses. In connection with this, we had taken the decision in the second quarter of 2017 to discontinue bricks-and-mortar sales, which had not had a successful start, and to sell the mattresses only directly via our Matratzen Union and sleepz Home companies, primarily online. In the course of doing so, we also reduced staff numbers with the result that Grafenfels will hardly make a loss in the second half of 2017 and may even have a chance of operating at a profit.

Based on our successful performance in the latest test by Stiftung Warentest (the German consumer testing foundation) for September 2017, in which Grafenfels' WEISS (H3, 90 x 200 cm) took joint second place, we expect business to recover significantly in the coming months. However, we do not expect to dedicate any new resources to Grafenfels itself for this, but rather to allow sales to continue via our sister companies. Grafenfels would then obtain a licence fee for the mattresses sold and could thus rapidly move into profit.

The fact that Stiftung Warentest awarded our Grafenfels mattress the test rating GOOD (2.5) is a major achievement for us and also spurs us on for the future. The mattress we submitted for testing, the Grafenfels WEISS, achieved a mark of 2.1 for the single most important criterion of the test – the lying properties. This demonstrates our high level of product development expertise – a source of great pride to us. At the same time, however, we achieved a poor score of 4.5 for the marketing/declaration criterion, which may have cost us victory in the test. We will learn from this and further optimise our other Grafenfels products in this non-sleep-relevant area.

As the Stiftung Warentest rating is extremely important in the mattress market, we are already anticipating five-digit mattress sales for Grafenfels in 2018 and therefore with substantial sales increases for this product.

sleepz Home GmbH closed the first half of 2017 with a negative result of € 431 thousand. Therefore, although its earnings improved again year on year, it remains very far from the break-even point, which we will endeavour to reach in 2018. At almost € 2.5 million, revenues remained considerably below the previous year's figure of € 3.2 million, making the improvement in earnings achieved all the more encouraging.

We expect sales in the second half of the year to increase considerably against the first six months; we also expect earnings to improve, although we still anticipate a loss. We expect sales to increase firstly due to our own shops' continual improvement in terms of technology as well as due to a clear rise in sales via marketplaces, particularly on Amazon and real. Secondly, B2B business is also developing positively, leading us to expect sales to increase in this area, too.

Youssef Hassan, who was Managing Director of sleepz Home GmbH for many years, left the management of the company on 30 June 2017. Volker Walther took over the management of the business as of 1 July 2017. We would like to take this opportunity to thank Mr Hassan for his work in developing the company and wish Volker Walther much success with the challenging task of leading sleepz Home GmbH into the black within a year.

The Matratzen Union Group was not able to continue the successful development of the previous year in the first half of 2017 due to increased competition for reach and the associated substantial rise in customer acquisition costs. To avoid slipping into the red, the Matratzen Union Group accepted a considerable drop in sales from € 4.5 million to € 3.4 million, although this enabled it to continue to operate at a slight profit of € 34 thousand. This is a thoroughly respectable achievement considering the price war affecting branded products, the advertising pressure from bett1 and the enormous rise in AdWords prices due to the profiteering by suppliers of one-fits-all mattresses.

Matratzen Union will continue to refrain from making sales at any cost. The company is strengthening its expertise and profile in the higher margin large furniture segment (box spring beds) and fulfilment sector. We see a sustainable competitive position in this market from which it is less easy to be challenged. The current turbulence in the advertising market will certainly subside, subsequently enabling Matratzen Union to grow again from a position of strength. We expect the company's sales to rise significantly as early as in the second half of the year.

For 2017 we had set ourselves the goal of bringing our subsidiaries' earnings up to break-even point. In all probability Grafenfels will not achieve this due to the restructuring, although the loss in the second half of the year should be very minor. However, we anticipate a positive result for 2018 should business be boosted by the Stiftung Warentest rating as expected. We had expected slight losses for sleepz Home and are currently behind schedule due to the decline in revenues. We are confident that the losses will decrease considerably compared to 2016 and that we can reach break-even in 2018. However, a loss of € 0.7-0.8 million may be generated in 2017 overall. The Matratzen Union Group should also finish 2017 positively overall, although profits will be lower than expected. We thus expect the result at subsidiary level to remain slightly negative overall in 2017. We should then move into profit in 2018.

After having dedicated a large amount of resources to the Extraordinary General Meeting, the capital reduction and the subsequent capital measures as well as to the sale of the VC portfolio in the first half of the year, we are now focusing wholeheartedly on our growth as a corporate e-commerce group. To this end we have developed a roadmap to value incorporating the following points:

1. centralising key functions within SLEEPZ AG
2. optimising retail processes
3. expanding product development and
4. expanding project business.

As regards the key functions, we have already filled the post of marketing head, which is intended, in particular, to initiate and implement group-wide projects, optimise product placements and new customer acquisition and support the subsidiaries with their marketing projects.

By the end of 2018, we also intend to optimise the areas of purchasing, product development and project business as well as finance/controlling and IT/processes. In this regard we are confident that we can implement our plans within the time frame we have set for ourselves.

We have already improved our retail processes further over the past few months, which was reflected in a very good contribution margin of 18.3% in the first half of 2017. Our target, despite rising marketing expenses, is to increase this further towards 20% in 2017 by, for example, optimising ranges, strengthening the high-margin private labels and utilising economies of scale. Over the long term we can also increase this further by establishing a group-wide shop solution and inventory management.

The fact that we have mastered the issue of product development has already been proven by the good test result for Grafenfels Weiss. The strategic partnership with Alessanderx will help us to expand this business further through joint product development and the availability of greater production capacity.
At the same time we are also planning to expand product development to high-margin products, having developed the first new products in the box spring bed segment.

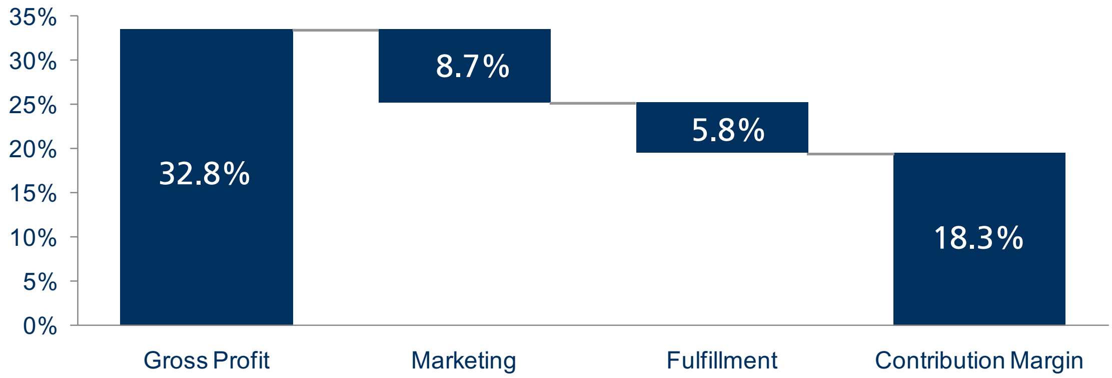

Figure: Combined Contribution Margin of sleepz and Matratzenunion in the first six Months of 2017.
Fulfillment costs include expenses for shipping processing (packaging material, outward freight and postage).
Marketing costs include expenses for advertising, including search engine marketing and advertising on TV, online and other marketing channels. In addition, they cover the costs of payment processing as well as intermediation and sales commissions for the market places.

Finally, we also intend to continue to drive the project business forward and make the B2B segment into a second mainstay for the company.
In particular, sleepz Home has already made a name for itself in this area as a valued partner for product development and logistics processes in connection with projects for shopping clubs such as Limango or Groupon. In addition to this, the aim is to become established as a partner for major projects such as hotels or ships, for example. Our partnership with Alessanderx can also strengthen our position in this area.

Furthermore, in addition to a potential investment in Cubitabo we are continuing to look into full integration of our subsidiaries, including in exchange for the issue of shares; this would facilitate implementation of our roadmap yet further. We are confident that we can acquire sleepz Home GmbH in full during the course of the year.

In addition to these structural issues, we are pressing ahead urgently with major operational projects aimed at enabling strong growth as early as 2017, but primarily in 2018. Due to the great difficulties we faced in the first half of the year, we will not achieve our goal of breaking even at the level of our subsidiaries as early as 2017; however, we are confident that we can reduce the loss significantly compared to the previous year. Even achieving our revenue target of € 18 million for 2017 will be a major challenge, particularly as we simply lacked the financial means to really push marketing and sales in the first six months of the year. We will catch up somewhat in the second half of the year. Whether this will be enough to compensate for the shortfall in the first half of the year will depend on the rapid implementation of some of our larger projects, such as Grafenfels.

At the 2017 Annual General Meeting, there was a change in the Supervisory Board. Bernd Brunke, who served as a member of the Supervisory Board for just over 11 years, resigned his mandate for personal reasons with effect from the end of the meeting. We regret this and would like to thank Bernd Brunke very warmly for his many years of always constructive and supportive commitment to the company.

Dott. Michele Puller has been newly elected as his replacement on the Supervisory Board until the end of the 2018 Annual General Meeting. We look forward to tackling SLEEPZ AG's many upcoming projects and further growth with him and his Supervisory Board colleagues Chairman Sven Rittau and Deputy Chairman Michael Stammler.

With best wishes

Oliver Borrmann
– Executive Board –

Berlin, September 2017

Consolidated Balance Sheet as at 30. June 2017

Assets	30.06.2017	31.12.2016
	€	T€
Long-term assets		
Intangible assets	4,880,108.30	4,883
Tangible assets	302,056.53	435
Fixed asset securities	16,666.00	13
	5,198,830.83	
Current assets		
Inventories	2,067,480.43	2,251
Assets marked for sale of discontinued operation	0.00	5,493
Receivables and other assets	919,771.99	1,215
Trade accounts receivable	277,272.19	236
Cash on banks and cash on hand	2,243,025.26	798
	5,507,549.87	
Total assets	**10,706,380.70**	**15,324**

Liabilities

	30.06.2017	31.12.2016
	€	T€
Shareholders´ equity		
Subscribed capital	8,280,391.00	20,701
Capital reserves	266,984.20	2,271
Accumulated costs of capital increases	-1,322,776.30	-1,221
Other revenue reserves	668,123.39	668
Accumulated net loss	-832,815.41	-15,173
Minorities	210,605.84	340
	7,270,512.72	
Non-current liabilities		
Liabilities towards banks	16,791.18	21
Loans	429,438.70	429
	446,229.88	
Current liabilities		
Trade accounts payable	922,154.92	1,183
Liabilities towards banks	1,380,557.21	2,154
Prepayments received	104,758.41	191
Other liabilities	563,867.56	3,718
Provisions	18,300.00	40
	2,989,638.10	
Total liabilities	**10,706,380.70**	**15,324**

Statement of Comprehensive Income for the Period from 01.01.2017 to 30.06.2017

	1.1.-30.06. 2017	1.1.-30.06. 2016
	€	T€
Sales revenue		
Sales revenue	5,864,727.61	7,719
Other operating income		
Other operating income	129,201.21	2
Income from consulting and commissions	102,445.13	268
Change in inventories	-22,435.50	0
Cost of materials		
Cost of sales and services purchased	-3,978,128.99	-5,364
Staff costs		
Wages and salaries	-930,686.18	-962
Social security contributions and costs for pensions and support	-165,299.00	-150
Depreciations		
Depreciation on tangible and intangible fixed assets	-133,304.34	-74
Other operating expenses	-2,209,591.73	-2,561
Operating income	**-1,343,071.79**	**-1,122**
Income from investments	71,588.08	47
Interest and similiar income	1,145.09	6
Interest and similiar expenses	-194,406.95	-210
Income taxes	-31,432.99	-16
Result from continuing operations	**-1,496,178.56**	**-1,295**
Result from discontinued operations	-753,663.67	-941
Consolidated net result	**-2,249,842.23**	**-2,236**
Share of result of non-controlling interests	129,561.49	132
result attributable to shareholders of the company	-2,120,280.74	-2,104
Earnings per share from continuing operations (diluted and non-diluted)	-0.19	-0.17
Earnings per share from discontinued operation (diluted and non-diluted)	-0.11	-0.13
Earnings per share (diluted and non-diluted)	-0.30	-0.30
Consolidated net result	**-2,249,842.23**	**-2,236**
Other comprehensive income	0.00	0
Comprehensive income	**-2,249,842.23**	**-2,236**

Cash-Flow Statement for the Period from 01.01.2017 to 30.06.2017

	2017 T€	2016 T€
Cash-flow from operations		
Consolidated net result	-2,250	-2,236
Result of discontinued operation	754	941
Depreciation of intangible and tangible assets	133	74
Share of result of non-controlling interests	130	132
Other non-cash items	0	-28
Decrease/(-) increase in assets and increase/(-) decrease in liabilities		
Receivables and other assets	254	-1,543
Inventories	184	-214
Other liabilities	-502	1,050
Provisions	-22	-504
Cash-flow from ordinary business activities	**-1,320**	**-2,327**
Cash flow-from investments		
Additions to fixed asset securities	-4	-4
Additions to intangible and tangible assets	2	-165
Increase of the share of subsidiaries	0	-89
Sale of discontinued operations	5,000	0
Total cash-flow from investments	**4,998**	**-258**
Cash flow-from financing		
Capital increase	1,934	0
Liabilities towards banks	-778	1,209
Minorities	-130	43
Loans	-3,000	396
Total cash-flow from financing	**-1,973**	**1,649**
Change in liquid funds	**1,705**	**-936**
Cash-flow from discontinued operation	-260	114
Total change in liquid funds	**1,445**	**-822**
Liquid funds at the beginning of the business year	798	1,943
Liquid funds at the end of the reporting period	2,243	1,121

Statement of Changes in Equity

Figures in T€	Subscribed capital	Capital reserve	Other profit reserves	Minorities	Accumu-lated net result	Total
Equity as at 01.01.2017	**20,701**	**1,051**	**668**	**340**	**-15,174**	**7,586**
Net result				-130	-2,120	-2,250
Capital reduction	-13,801	-2,659			16,460	0
Capital increase	1,380	554				1,934
Equity as at 30.06.2017	**8,280**	**-1,054**	**668**	**210**	**-834**	**7,270**
Equity as at 01.01.2016	**20,701**	**994**	**782**	**6**	**-5,617**	**16,866**
Net result				-271	-9,557	-9,828
Transactions with non-controlling interests			-114			-114
Share-based compensation		57				57
Shares of non-controlling interests				605		605
Equity as at 31.12.2016	**20,701**	**1,051**	**668**	**340**	**-15,174**	**7,586**

Notes

Accounting in accordance with International Financial Reporting Standards (IFRS)

In accordance with Regulation 1606/2002 of the European Parliament and of the Council, SLEEPZ AG has prepared its annual financial statements for 2016 in accordance with the International Financial Reporting Standards (IFRS) adopted by the European Union. Accordingly, these interim financial statements as at 30 June 2017, which were not reviewed by a person qualified to audit financial statements, were also prepared in compliance with IAS 34 and contain condensed reporting compared to the annual financial statements. All amounts in themselves have been rounded in line with commercial practice; this can result in minor deviations in the addition of figures.

General

Following the reporting date, the Annual General Meeting of SLEEPZ AG carried out a change of name from bmp Holding AG to SLEEPZ AG in order to take account of the scope of the company's activities.

Accounting policies

SLEEPZ AG has implemented all accounting standards endorsed by the EU and effective for financial periods from 1 January 2017.

The accounting standards applicable for the first time in the 2017 business year have no significant effect on the presentation of the net assets, financial position and results of operations. A detailed compilation of these accounting standards can be seen in the notes to the 2016 annual report.

Otherwise, the same accounting policies were applied in the preparation of the interim financial statements and the calculation of the comparative figures for the previous year as in the 2016 annual financial statements. A detailed description of these methods was also published in the notes to the annual financial statements for the 2016 annual report.

Notes on the Interim Financial Statement

1. Business purpose

The purpose of the company is to develop and produce economic assets and to trade such assets, particularly in the consumer goods sector, including via subsidiaries, associates and equity investments, as well as to perform consulting services for companies. The company will promote subsidiaries, affiliates and holdings in the long term and pursue a joint business strategy.

SLEEPZ AG has its headquarters at Schlüterstrasse 38, D-10629 Berlin, Germany. SLEEPZ AG is entered in the Commercial Register of the District Court of Berlin-Charlottenburg, Federal Republic of Germany, under the number HR-B 64 077.

2. Non current assets held for sale

The venture capital business was reported in the annual financial statements of 2016 as a discontinued operation. The venture capital remaining portfolio was sold completely in the second quarter of 2017.

3. Information on subsidiaries

The interim financial statements include SLEEPZ AG and the subsidiaries over which it exercises control. SLEEPZ AG controls a company if it has power of disposal over that company. This means that SLEEPZ AG has existing rights that grant it the present ability to control material activities. These are activities that materially influence the company's return. SLEEPZ AG is also exposed to fluctuating returns from its involvement in the company or has entitlement to them and has the ability to influence such returns by means of its power of disposal over the company.

Full consolidation of subsidiaries begins at the point in time from which the possibility of control exists and ends when such possibility of control ceases to exist. Generally, consolidation of capital is accounted for using the acquisition method under IFRS 3. This generally requires the acquired assets and liabilities to be recognised at their fair values. If the difference between the acquisition costs and the proportionate share of the remeasured equity of the subsidiary is positive, it is reported as goodwill and is regularly tested for impairment. Any remaining negative difference is recognised in profit or loss in the income statement following a reassessment.

Expenses, income, receivables and liabilities between the fully consolidated companies as well as intergroup profits from supply and service relationships within the group are eliminated. Where applicable, deferred taxes are recognised for consolidation transactions included in the income statement.

4. Scope of consolidation

Name	Principal activities	Headquarters	Share of capital and voting rights as at 30.06.2017	Share of capital and voting rights as at 31.12.2016
sleepz Home GmbH	Operating and further developing online shops as well as multichannel sales, in particular of bedding and furniture of all kinds	Ludwigsfelde, Germany	66,8%	66,8%
Matratzen Union GmbH	Purchasing and selling mattresses, bedding and sleep systems	Wolfhagen, Germany	60,0%	60,0%
Markenschlaf GmbH	Trading in goods of all kinds, particularly products relating to sleep, furnishings and living, as well as comparable consumer goods	Wolfhagen, Germany	60,0%	60,0%
Ecom Union GmbH	Trading in goods of all kinds, particularly products relating to sleep, furnishings and living, as well as comparable consumer goods	Wolfhagen, Germany	60,0%	60,0%
Denkvertrieb GmbH	Developing marketing strategies, graphic design and implementation, textual design, selling and trading via internet platforms, developing sales strategies and designing and optimising websites	Wolfhagen, Germany	60,0%	60,0%
Grafenfels Manufaktur GmbH	Designing, manufacturing and selling mattresses, bedding, bed linen and all other products relating to the theme “sleep”	Berlin, Germany	100 %	100 %

5. Disclosures on related party companies and persons

The Company has maintained service relationships with the Executive Board and the Supervisory Board. The compensation system and the amount remained unchanged. The Executive Board, Oliver Borrmann, is a minority shareholder in bmp Ventures AG, with which a service agreement exists.

6. Reconciliation of balance sheet items to classes of financial instruments

The table below shows the reconciliation of financial instruments, broken down by carrying amount and fair value, to the balance sheet:

2017 T€	At amortised cost Book value	Balance sheet item as at 30.06.2017
Non-current assets		
Fixed asset securities	17	17
Current assets		
Trade accounts receivable	920	920
Receivables and other assets	277	277
Cash in hand and bank balances	2.243	2.243
Total	**3.457**	**3.457**
Non-Current liabilities		
Loans	429	429
Liabilities towards banks	17	17
Current liabilities		
Trade accounts payable	922	922
Liabilities towards banks	1.381	1.381
Other liabilities	564	564
Advance payments received	105	105
Total	**3.418**	**3.418**

2016 T€	at fair value Book value	At amortised cost Book value	Balance sheet item as at 31.12.16
Non-current assets			
Fixed asset securities		13	13
Current assets			
Trade accounts receivable		1215	1,215
Receivables and other assets		236	236
Cash in hand and bank balances		798	798
Assets of discontinued operation	5,493		5,493
Total	**5,493**	**2,262**	**7,755**
Non-Current liabilities			
Loans		429	429
Liabilities towards banks		21	21
Current liabilities			
Trade accounts payable		1,183	1,183
Liabilities towards banks		2,154	2,154
Other liabilities		3,718	3,718
Advance payments received		191	191
Total	**0**	**7,696**	**7,696**

7. Significant events and business transactions

The capital was reduced by resolution of the Annual General Meeting on 21 March 2017. Furthermore, the capital was increased by € 1,380 thousand in two capital increases, see No. 10.

8. Unusual circumstances

There were no unusual circumstances affecting the company's assets, liabilities, equity, profit or loss for the period or cash flows in the period under review.

9. Estimates

There were no changes in estimated amounts in the period under review.

10. Changes in shares

SLEEPZ AG carried out a capital reduction and two capital increases in the reporting period. The capital was reduced by a resolution of the Annual General Meeting of March 21, 2017 in a ratio of 3:1 from € 20,701,174.00 to € 6,900,391.00. In May 2017, capital was increased by € 690,000.00 to € 7,590,391.00 and in June 2017 by € 690,000.00 to € 8,280,391.00. The new shares are entitled to share in profits as of 01.01.2016.

11. Dividends

No dividends were paid in the period under review.

12. Segment information

SLEEPZ AG generated its revenue primarily from the sale of products in the area of "sleeping" in Germany. The company's revenues and earnings were not broken down into segments.

13. Contingent liabilities and contingent assets

There were no changes in contingent liabilities or contingent assets in the period under review.

14. Responsibility statement

To the best of my knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the condensed interim financial statements give a true and fair value of the assets, liabilities, financial position and profit or loss of the company, and the management report includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal opportunities and risks associated with the expected development of the company in the remainder of the business year.

The Executive Board

Management Report of SLEEPZ AG as per 30.06.2017

Business purpose

SLEEPZ AG is the operating holding company of an e-commerce group, which it provides with a number of central services. It establishes its own subsidiaries and acquires majority interests in companies with the aim of developing a leading group in the Sleep segment in Germany.

Business development in the first half of 2017

SLEEPZ AG's performance in the first half of 2017 was considerably weaker than expected. Total sales amounted to € 5.9 million, down roughly 25% compared to the previous year's sales of € 7.7 million. There are two main reasons for this: Firstly, the market and competitive environment has changed. The new one-fits-all mattress companies in particular have drawn customers to them with very high advertising budgets in some cases, particularly online and on television, although this has often meant accepting disproportionately high customer acquisition costs. We cannot and do not intend to compete here, as this does not make economic sense in our view. As a result, we saw a decline in visitor numbers and generated lower sales in the first half of the year. At the same time, price pressure also increased for some standard products, with the effect that from a certain price point it no longer made sense to participate in this price war.

Secondly, the company had a number of internal issues to contend with, including an Extraordinary General Meeting, a subsequent capital reduction and two capital increases, as well as the final divestment of the former venture capital business. All of this put strain on the focus on operating business and also led to a tight liquidity position in some cases, which in turned reduced the degree of leeway in purchasing and marketing. This all had a negative impact on operating business, but had been completed by 30 June 2017.

The company ended with first six months of the 2017 financial year with consolidated earnings of - € 2,250 thousand. Adjusted for the result from the discontinued venture capital operations, this produces a consolidated result from ordinary business activities of - € 1,465 thousand. Of this total, a loss of € 432 thousand is attributable to Grafenfels Manufaktur GmbH, a loss of € 431 thousand to sleepz Home GmbH and a profit of € 34 thousand to the Matratzen Union Group, while the rest is attributable to SLEEPZ AG itself.

Discontinued venture capital operations

The remaining venture capital portfolio was sold in full in the first half of 2017, generating disposal proceeds that were slightly lower than the IFRS book value in line with expectations.

Market and competition

In our opinion, the market for bedroom furniture and bedding, etc. ("sleep products") will develop positively in the medium term. Given the greater awareness of and desire for health both in society and among individuals, the long neglected bedroom is taking on an increasingly important role as a place of rest, a wellness oasis and a room for sleep, relaxation and work. For this reason, we assume that demand for high quality products for the bedroom will grow in the coming years.

Quite a bit is happening in terms of competition. The big, bricks-and-mortar chains such as Dänisches Bettenlager or Matratzen-Concord, who have so far generated only marginal revenues online, want to invest massively in expanding their online channels. Purely bricks-and-mortar smaller stores are at a disadvantage here if they do not have a particular profile (products, own brands, location, customer loyalty, etc.). Not only are they being confronted with growing online competition, they also face price competition on standard products.

Also, more and more young companies are entering the mattress market with the US Casper concept of a "one fits all" mattress, which accounts for a good 20% of the sleep products market in total. These mattresses are sold online to customers via their own webshops (B2C), and these customers are won over by "better prices by avoiding bricks-and-mortar stores", the supposedly "perfect" mattress and a 100-night trial sleeping concept. As we see it, these companies are helping to draw press and consumer attention to the sleep products segment as a whole, and of course there is also reason enough for them to exist in a certain area of the mattress market. However, as our positioning is considerably broader, we see these companies as only limited competition to our overall approach.

Organisation and employees

As at the reporting date, 70 employees worked at SLEEPZ AG in addition to the Executive Board. The subsidiaries are managed by their executive directors, no personal identity exists between the Management of the Holding and the subsidiaries.

Opportunities and risks of future development, risk management

Market

The online market in the Sleep segment is undergoing change. Many furniture companies and larger bricks-and-mortar traders are discovering the online market, and greater competition is to be expected. At the same time, the market overall is exhibiting a strong growth dynamic.

Competition

The German market does have some larger players, such as Schlafwelt.de (Otto group), but no competitor exercises significant control over the market. Given the fact the market is not controlled by a single competitor or a small number of competitors, a very large number of companies are attempting to tap this market. Several new online companies require a higher level of service than is standard and are creating greater competition with regard to price. This could pose the risk of a decline in margins.

Technology

E-commerce is becoming ever more complex and increasingly technical. In order to keep up, it is important always to use the latest technologies, such as mobile shopping, for example. The mobile internet and other technical advances require good external service providers or a strong in-house technical department. Dependency on external service providers poses a not insignificant risk. At the same time, developers are currently in strong demand, which makes recruiting staff for the in-house technical department increasingly difficult and leads to a high risk of losing good employees.

Staff

Particularly at the Berlin location, recruiting good employees in all areas is proving difficult due to the high number of e-commerce companies. Companies have to offer more in order to be attractive, especially at management level. This higher demand may potentially lead to an increase in staff costs.

Legal risks

Cease-and-desist letters and court cases have been inherent in online trading for many years. Counteracting this requires higher legal expenses with regard to prevention. This applies to all processes and areas on the domains. Costs for legal advice and provisions for legal disputes are rising.

Supplier risk

Despite the large opportunity brought about by many suppliers discovering trading on the internet and online traders therefore being offered ever more products, many manufacturers also protect themselves against misuse and strategic changes contractually. It is always possible for business relationships to end abruptly. This can change the product range and revenue can shift or in the worst case even fail to materialise.

Warranties/product liability

The issue of warranties hardly poses problems as the risk is primarily borne by the manufacturer. However, the importer bears the product liability risk for imported products. As a result, very high quality standards must be set for product testing. In spite of such quality standards, supplying imported products can bring with it the risk of product liability and the resulting costs.

Image
The internet is becoming ever more transparent and the opinions of consumers, associations and opinion leaders (e.g. Stiftung Warentest, the German consumer testing foundation) are becoming increasingly important. This represents a great opportunity to stand out from the competition, but also the major risk of rapidly suffering damage to one's reputation.

Products
In the Sleep segment, mattresses, sprung bed slats and beds have a very long life, which means the product range can be well coordinated for many years. This is not the case in the fashionable segment, as with bedding, for example. In this area it is important to sell quickly as value adjustments must otherwise be made for slow sellers.

Financing risk
For the the subsidiaries in general there is the risk that they cannot cover their financing needs completely by banks. Due to the earnings situation and the company age, especially the subsidiaries sleepz Home GmbH and Grafenfels Manufaktur GmbH are dependent on the support of their shareholders. The current liquidity requirements have to be covered by SLEEPZ AG and optionally by the existing shareholders. Furthermore SLEEPZ AG can be called on by banks for credit protection.

Credit risk
There is a very low credit risk when selling directly to consumers due to the payment terms. There is a risk associated with selling via platforms that simultaneously perform a collection function. This risk is continuously monitored by the company's management.

Company dependence on economic cycles
The economic success of SLEEPZ AG is heavily dependent on the general economic development.

Risks of changes in interest rates
The liabilities do not present any risks of changes in interest rates. Variable interest rates are assessed on all current money investments. The amount of future interest expenses is affected by the development of the general interest rate level.

Overall evaluation and risk management
SLEEPZ AG has recognised extensive provisions for all discernible individual risks in the annual financial statements as of 30 June 2017.

At the holding level, the Executive Board personally monitors and supports the development of the subsidiaries. It maintains close contact with the senior management of affiliated companies and is involved in decision-making relating to transactions outside of day-to-day business.

SLEEPZ' scurrent liquidity is adequate for its existing business and will enable it to meet all its obligations. From a current standpoint, if the risks described were to occur individually or together they would still not pose a danger to the continuation of SLEEPZ AG as a going concern. In the view of the Executive Board, SLEEPZ AG has a lasting capability to remain in existence over the long term.

Opportunity report
Due to the positive performance of its own Grafenfels WEISS mattress in Stiftung Warentest's cold foam mattress test for September 2017, Grafenfels will optimise its existing mattress range over the coming months. Active marketing for the Grafenfels WEISS, which has been rated “GOOD” in tests, is to begin in September, primarily via the SLEEPZ Group itself. There is good potential for the Grafenfels range to generate sales in the millions of euros along with a healthy margin next year. The SLEEPZ Group is increasingly working on major projects, which also offer good growth prospects.

Forecast report for the period from 1 July to 31 December 2017

Market environment
SLEEPZ AG focuses on the “Sleep” market segment and mainly on online trading (e-commerce) within this area. The Sleep segment ranges from beds, mattresses, bedding and bedroom furniture to accessories, among other

things. Online trading is developing positively in this segment and continues to gain market share. Due to its positive development, an increasing number of competitors are entering the market, leading to price competition and increasing customer acquisition costs. This may put pressure on the contribution margins.

Investment activity

The Executive Board is currently examining a potential acquisition in the Sleep segment that could be concluded before the end of the year. In addition, the full acquisition of the equity investment in sleepz Home GmbH will be examined before the end of the year.

Forecast result of operations

For 2017, the Executive Board is planning for a result from ordinary business activities of -€ 1.5-2.0 million.

Significant events after the reporting period

No significant events occurred after the reporting period.

Outlook

As a result of the extensive structuring work and liquidity shortages in the first half of the year, combined with growing competition in customer acquisition, sales were down significantly year-on-year. The company will do all it can to make up this shortfall and transform it into growth for the year as a whole. It is still possible to achieve the sales guidance of € 18 million for the year as a whole, which was subject to the prerequisite of sufficient growth financing, but this will certainly be a major challenge.

Based on work on a large number of major projects and the successful performance of the Grafenfels WEISS in Stiftung Warentest's mattress test for September 2017, we expect to be able to gain growth momentum in the coming months and particularly in 2018.

Berlin, 12 September 2017

Oliver Borrmann

About SLEEPZ AG

SLEEPZ AG is an e-commerce group focussing on the segment of sleep products (e.g. beds, box-springs, slatted frames, mattresses, bedding and sleeping accessories). Our subsidiaries sleepz Home GmbH, Matratzen Union GmbH, Ecom Union GmbH and Markenschlaf GmbH run online shops in the segment of sleep products, including www.perfekt-schlafen.de , www.markenschlaf.de , www.schlafnett.de , www.matratzenunion.de , www.schlafhandel.de , www.onletto.de , www.schoene-traeume.de and www.matratzendiscount.de.

Grafenfels Manufaktur GmbH has developed its own mattress collection under the “Grafenfels” brand.

The group also has showrooms in Berlin and Wolfhagen. The group currently employs 70 people at the sites Berlin, Ludwigsfelde, Wolfhagen and Kassel.

Contact

SLEEPZ AG
Schlüterstraße 38
10629 Berlin

tel. +49 (30) 20 30 5-0
fax. +49 (30) 20 30 5-555

welcome@sleepz.com
www.sleepz.com