SLEEPZ AG

UNION FÜR SCHLAF- UND WOHNKULTUR

GROUP HALF-YEAR REPORT
JANUARY – JUNE 2018

KEY FIGURES

		H1/2018	H1/2017
Sales revenue	*in € million*	5.5	5.9
Total operating performance	*in € million*	5.5	6.1
Material costs	*in € million*	-4.0	-4.0
Cost-of-materials ratio[1]	*in %*	73.5	67.8
Gross profit[2]	*in € million*	1.4	1.9
EBITDA[3]	*in € million*	-2.7	-1.2
Result from continuing operations	*in € million*	-2.8	-1.5
Result from continuing operations attributable to shareholders of the company	*in € million*	-2.6	-1.4
Consolidated net result	*in € million*	-2.8	-2.2
Earnings per share	*in €*	-0.25	-0.30
		30.06.2018	31.12.2017
Balance sheet total	*in € million*	8.3	8.7
Inventory assets	*in € million*	1.9	2.1
Shareholders' equity	*in € million*	3.5	5.7
Equity ratio	*in %*	42.5	65.3
Employees		70	57

[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

For an explanation of performance measures, please also refer to our annual report 2017.

SLEEPZ AG SEMI ANNUAL STATEMENT JANUARY – JUNE 2018

- Half-yearly revenue of € 5.5 million as against € 5.9 million
- Consolidated net income of € -2.8 million as against € -2.2 million
- Alexander von Tschirnhaus appointed to the Executive Board from 1 August
- Convertible bond of up to € 7 million is being placed
- Term sheets signed with URBANARA and Sam Stil-Art-Möbel

As expected, revenue in the second quarter of 2018 was down slightly year on year, causing the Group‘s half-yearly revenue to fall by 6.9% year on year to € 5.5 million. Four key factors had a negative impact here.

- Firstly, the aggressive price war in the product segment of mattresses continued, which put pressure on margins and has since caused the first competitors to withdraw from the German market (eve) or to become insolvent (muun). This trend is likely to continue and will definitely lead to further market adjustments in the coming months, which will probably help to ease the price war in the medium term.
- Secondly, we were unable to increase the market presence of our own brands such as Grafenfels and Matratzenheld in the second quarter, which would not only have generated more revenue but would also have improved our gross profit margin.
- Thirdly, the introduction of the General Data Protection Regulation in the spring required the Group to carry out work that tied up a great deal of resources, which negatively affected operating activities in the short term.
- Fourthly, the weather was better than average in the second quarter, which led to significant losses throughout the market due to noticeable consumer restraint with regard to purchases relating to the bedroom.

Owing to the ongoing price war in the mattress segment and the fact that the SLEEPZ Group‘s product portfolio has to date focussed mainly on brands, the gross profit margin deteriorated significantly from 32.2% in the previous year to 26.5%. This did not meet our own expectations or our target of keeping gross profit stable at over 30%. We will channel all our energy into ensuring that our gross profit returns to this level in the second half of the year. We are currently working on the following issues in order to achieve this:

- Cutting down our product range to remove low-margin products
- Reducing the share of mattresses in total revenue
- Expanding private labels, on which margins are higher

In business with private labels in particular, we have since achieved two successes, which should lead to higher revenue in the second half of the year. Firstly, under the leadership of Matratzen Union, we have launched a quality mattress under the „Wolkenwunder“ brand that offers almost unbeatable value for money and is probably the most reasonably priced quality mattress on the market at present. This has secured itself a place among the top 10 mattresses on Amazon in just a short space of time, and will now be supplemented by a higher-quality product that offers similarly outstanding value for money under the same brand. Here we will be able to establish our own excellent quality mattress brand on the market in the long term.

At the same time, sleepz Home has entered into a partnership with porta Möbel GmbH & Co. KG to sell its highly innovative buddy mattress, which it developed itself, in porta! furniture stores and in porta's online shop www.porta.de from this autumn. This not only attests to our Group's innovative strength, but will also allow it to tap into a major B2B channel, which can make a significant contribution to the Group's revenue.

The high cost-of-materials ratio and slight decline in revenue caused gross profit to fall by more than € 0.4 million year on year to € 1.4 million. This gross profit was nowhere near sufficient to cover the Group's costs, which had increased further, partly as a result of the acquisition and integration of Cubitabo GmbH. This caused the consolidated loss to increase to € 2.8 million, compared with € 2.2 million in the first half of 2017.

The bulk of these losses, coming to a combined total of € 1.9 million, came from sleepz Home GmbH, which had acquired Cubitabo GmbH at the beginning of the year. The two companies had operated with an aggregated monthly loss of around € 0.3 million in 2017. The aim was to reduce this much more quickly by merging, which we did not manage to achieve in the first half of the year, mainly owing to major structural adjustments. We expect to see a significant improvement here in the second half of the year.

However, the Matratzen Union Group also slid into the red in the first half of the year with losses of € 0.2 million, although it expects to return to a profit in the second half.

SLEEPZ AG itself closed the first half of 2018 with a negative result of just under € 0.7 million, the same level as in the previous year. Without any special projects, holding costs are expected to be around € 1.2 million in the medium term. Assuming that a contribution of 2% of consolidated revenue is paid to the holding company, the holding would be expected to be able to cover its costs at consolidated revenue of € 60 million or above.

To strengthen the holding company in terms of personnel, Alexander von Tschirnhaus was appointed to the Executive Board from 1 August 2018. He is also Managing Director of sleepz Home and Cubitabo. As a member of the Executive Board, Mr von Tschirnhaus will initially be responsible for purchasing, products, marketing and sales, along with the operational management of the subsidiaries. Further reinforcement is planned for 2018 if possible, while at the same time the service agreement with bmp Ventures AG is to be reduced, the first stage of which was completed on 1 August.

The SLEEPZ Group's listing in the regulated market means it has a cost structure that will require it to grow quickly into a larger revenue class. Because of this, it has looked intensively at possible further acquisitions in recent months. It has entered into more in-depth talks with two companies, which in both cases has led to the signing of a term sheet regarding a takeover of the companies in exchange for the issue of shares in SLEEPZ AG. If both acquisitions are implemented successfully, the SLEEPZ Group will be able to grow into a revenue class of around € 50 million in 2019. The first company is Berlin-based URBANARA GmbH with around 45 employees, which expects to generate revenue of approximately € 8 million in 2018. The company has built up its own strong brand, URBANARA, primarily in the field of household textiles and home accessories, and sells these mainly through its own web shops www.urbanara.de and www.urbanara.co.uk and on

Amazon. URBANARA's own-brand approach allows it to achieve a gross profit margin of around 50% and ensures strong customer loyalty, which meant that 44% of revenue came from existing customers in 2017. URBANARA is growing steadily at over 20% p.a. and, although it is still in the red, expects to break even in 2019.

The SLEEPZ Group expects the takeover of URBANARA to have several positive effects:

» With Managing Director Christian Salza and his team, the SLEEPZ Group will gain outstanding managers in the e-commerce segment. Christian Salza's previous positions before joining URBANARA included Head of Commercial at home24, where he was responsible for purchasing, category management and pricing, among other areas. He took over the management of URBANARA in early 2017 in a difficult situation and within the last 18 months has successfully restructured and stabilised the company.
» In the last few years, URBANARA has succeeded in building up a high-quality brand that is strong on design in the home and living segment. URBANARA's products will expand and complement the Group's ranges, and can be sold very easily through the Group's distribution channels.
» URBANARA has an excellent understanding of IT and BI, which the Group will be able to benefit from on a lasting basis.
» The focus on 100% private labels will significantly increase the Group's gross profit.

The second company is Sam Stil-Art-Möbel GmbH, which is based in Kirchheimbolanden in Rhineland-Palatinate. SAM has focussed on furniture – primarily from Asia and eastern Europe – that offers good value for money, and also sells it exclusively under its own brands. SAM develops its own product ideas and buys through long-standing contacts in Asia. The products are then sold under the company's own brands, mainly through its own web shops www.stilartmoebel.de and www.bad11.de. The product portfolio still focusses on beds, although other types of products have been added over the years, including bathroom and garden furniture. SAM anticipates revenue of around € 15 million for 2018 and generally operates at a slight profit.
We expect the following positive effects from the takeover of SAM:

» SAM has extensive storage capacity, currently totalling around 30,000 sq m, and will be able to take over storage functions for the Group, particularly in the large furniture segment. In the medium term, this will allow the Group's current storage capacity to be reduced or organised in a more focussed way.
» SAM's considerable experience of purchasing in Asia will enable it to improve the entire Group's sourcing.
» SAM's products can also be sold through the Group's numerous channels without any problems, so we expect revenue to be boosted.

The plan is to carry out both acquisitions by way of non-cash contributions in exchange for the issue of SLEEPZ shares. Based on current valuations, each of which must be confirmed by a report on the non-cash contribution, the takeover of URBANARA will lead to the issue of just under 5.2 million shares from the current authorised capital of around 6.2 million shares. In the case of

SAM, the current valuation will lead to the issue of a further 4 million shares, which will then have to come from new authorised capital. An Extraordinary General Meeting may therefore be convened following a successful takeover of URBANARA, which would have to pass a resolution on such new authorised capital.

However, the two acquisitions can be implemented only if the SLEEPZ Group is able to raise the necessary growth capital. A convertible bond worth up to € 7 million is being placed in connection with this; the placement is expected to be concluded in early October. If the bond is placed successfully, both acquisitions can go ahead.

OUTLOOK

We expect revenue to improve significantly in the second half of 2018 and in this respect continue to anticipate growth of a low double-digit percentage for the 2018 business year as a whole excluding acquisitions. We need to catch up to some extent in terms of revenue in order to achieve this, but the anticipated success of our „Wolkenwunder“ and „buddy“ brands and the withdrawal of some competitors are expected to help ensure decent growth in revenue.

With regard to earnings, we expect to see a significant improvement in the second half of 2018 compared with the first half of the year, mainly owing to a substantial reduction in losses at sleepz Home. This is partly because additional integration costs will no longer apply and also because we expect to leverage synergies once integration is complete.

The SLEEPZ Group requires further liquid funds in order to finance its own activities in the fourth quarter. If the placement of the convertible bond does not produce any results, SLEEPZ AG will have to seek alternative sources of financing in the short term. However, we currently expect to be able to raise the necessary capital for expansion.

Berlin, September 2018

Oliver Borrmann Alexander von Tschirnhaus

Group Management Report of SLEEPZ AG as per 30 June 2018

Basic Information about the Group

BUSINESS MODEL

The SLEEPZ Group is an e-commerce group of companies that positions itself as the „Union for Sleeping and Living Culture“ in the Home & Living segment, with a focus on sleep environments.

The subsidiaries of the SLEEPZ Group sell a complete range of products, mainly relating to the „bedroom furniture, bedding goods and home textiles” sector, and develop private labels for their own sale and distribution by third parties. A multi-channel approach is used for sales, most of which are currently to B2C customers in Germany. Sales take place through the group‘s own web shops, a wide range of marketplaces and bricks-and-mortar stores.

Having focussed on sleep products to date, the SLEEPZ Group is gradually expanding this to include the home and living market through a buy and build strategy. This means that the product ranges will be expanded.
As at 30 June 2018, the SLEEPZ Group employed 70 staff (excluding the Executive Board), which represents as many employees as before year on year.

In addition, the statements regarding the SLEEPZ Group‘s business model in the 2017 annual report continue to apply.

ORGANISATIONAL STRUCTURE OF THE GROUP/MANAGEMENT SYSTEM

sleepz Home GmbH, Ludwigsfelde, acquired 100% of shares in Cubitabo GmbH, Berlin, with effect from 3 January 2018. In this context, the share held by SLEEPZ AG in sleepz Home GmbH initially fell to 40.62%; however, a voting agreement ensured that it continued to have control of the company for the time being.

In the meantime, the shares in sleepz Home that were not already owned by SLEEPZ AG at the beginning of the reporting period have been almost fully transferred to SLEEPZ AG by means of a non-cash capital increase. SLEEPZ AG‘s share capital increased upon entry of the non-cash capital increase in the company‘s commercial register on 7 May 2018. Since then – and as at 30 June 2018 – it has amounted to € 12,443,554.00, divided into the same number of no-par-value bearer shares each accounting for a proportionate share of € 1.00 in the share capital; since the non-cash capital increase was entered in the commercial register, the stake owned by SLEEPZ AG in sleepz Home GmbH has been 92.03%.

The additional statements in the 2017 annual report regarding the SLEEPZ Group‘s organisational structure and management system, including with respect to financial key figures, continue to apply.

Economic Report

A. GENERAL ECONOMIC AND INDUSTRY-SPECIFIC CONDITIONS

General economic and industry-specific conditions

According to the Federal Statistical Office, revenue in the German retail sector increased year on year by 3.0% in nominal terms or 1.4% adjusted for price changes in the first half of 2018. However, revenue in the segment of „Furnishings, household appliances, building supplies" contracted slightly by 0.4% (in nominal terms) or 0.7% (adjusted for price changes).[1]

Online trading recorded significant growth in the first half of 2018. According to Bundesverband E-Commerce und Versandhandel Deutschland e.V. (behv), a German association of online retailers and mail-order companies, gross revenue rose by a total of 11.1% from just under € 27.2 billion as at 30 June 2017 to slightly over € 30.2 billion as at 30 June 2018. behv has maintained its forecast of revenue of € 63.9 billion for the online retail sector for 2018 as a whole, which would represent growth of about 9.3% compared with 2017.[2]

No up-to-date information is available regarding the revenue performance of online furniture retailers in the first half of 2018. However, overall economic conditions, economic development and consumer sentiment did not change significantly in the first half of 2018, and at present there are no indications that substantial changes can be expected here in the second half of 2018. The assumptions about market development made in the 2017 annual report have thus been maintained in this respect.

Competitive situation and company's position on the market

The furniture trade is continuing to undergo consolidation. This development is being driven by customers' growing interest in purchasing furniture online and simultaneous efforts by retailers that until now have operated primarily through bricks-and-mortar shops and/or chain stores to further expand their online activities. At the same time, online competitors of SLEEPZ are also keen to expand their position on the market, whether through acquisitions or by raising growth capital for their companies.

On the other hand, when it comes to companies pursuing a „one fits all" mattress concept, it is becoming clear that this business model has limited potential. The British mattress start-up Eve has withdrawn from the German market, for example.

SLEEPZ remains convinced that it is in principle in a good position to grow in future and expand its position on the market, with its subsidiaries whose broad product range encompasses well-known brands and private labels, its multi-channel approach to sales and its excellent fulfilment. However, it needs further capital to be able to drive forward its buy and build strategy quickly.

1 https://www.destatis.de/DE/PresseService/Presse/Pressemitteilungen/2018/07/PD18_280_45212.html
2 behv: Press releases dated 14 April 2018 and 8 July 2018

B. BUSINESS PERFORMANCE

The SLEEPZ Group‘s business performance in the first half of 2018 was unsatisfactory, with revenue declining slightly further despite the first-time consolidation of Cubitabo GmbH as a subsidiary of sleepz Home GmbH.

The takeover of Cubitabo GmbH and its subsequent integration into sleepz Home GmbH tied up a lot of management capacity at both companies, particularly as it was not only the staff that had to be merged; the Cubitabo shops also had to be integrated into inventory management at sleepz Home GmbH. This resulted in a series of technical adjustments, which negatively affected the performance of some shops in the short term. The non-cash contribution of sleepz Home GmbH into SLEEPZ AG was then successfully implemented in May. On the whole, the takeover led to slight growth in revenue at sleepz Home GmbH.

However, the low gross profit margin due to tough price competition is causing concern. Product ranges will need to be adjusted here to enable gross profit to improve, as otherwise it will not be possible to make sleepz Home GmbH profitable. There is therefore also a focus here on expanding private labels, among other things.

The Matratzen Union Group[3], on the other hand, continued to lose revenue. This is due to Matratzen Union‘s focus on mattresses and beds, as an intensive price war continues to rage in the brand-name mattress segment in particular, where customer acquisition costs can partially no longer be covered sufficiently. Moreover, the company lost an important manufacturer, which led to a further decline in revenue. The company has since managed to win back this manufacturer.

The management has initiated appropriate countermeasures to escape from this price war as far as possible. A simple, high-quality mattress has been developed under the private label „Wolkenwunder“, which has the potential to become the price leader on the market in the long term. Marketing began at the end of the second quarter and several hundred mattresses are already being sold every week. „Wolkenwunder“ has established itself among the top 10 mattresses on Amazon.

Overall, the first half of 2018 was therefore very challenging for the Group, although revenue was still in line with forecasts. However, the gross profit margin was lower than expected, while the integration and necessary restructuring of sleepz Home/Cubitabo proved more costly than planned, which meant that the loss for the first half was larger than anticipated. A significant reduction must be achieved here in the second half of the year.

RESULTS OF OPERATIONS, NET ASSETS AND FINANCIAL POSITION

Results of operations

Consolidated revenue amounted to € 5.5 million in the first half of 2018 and was thus down barely 7% on the previous year’s comparable revenue of € 5.9 million.

3 The Matratzen Union Group includes the limited liability company (GmbH) of the same name as well as Markenschlaf GmbH, Ecom Union GmbH and Denkvertrieb GmbH

€ 2.7 million (previous year: € 2.5 million) of this figure related to sleepz Home GmbH, whereby Cubitabo GmbH, which was acquired at the beginning of 2018, accounted for € 0.5 million. However, sleepz Home did not achieve the expected revenue growth in the first half of 2018.

The companies in the Matratzen Union Group (Matratzen Union GmbH, Markenschlaf GmbH, Ecom Union GmbH, Denkvertrieb GmbH) achieved consolidated revenue of € 2.7 million in the first six months of the 2018 business year, well below the previous year‘s figure (€ 3.4 million). The management had decided not to do any business that would involve accepting excessive customer acquisition costs.

Grafenfels Manufaktur GmbH, which sells mattresses under the same name directly through the subsidiaries Matratzen Union and sleepz Home GmbH in exchange for a licence fee, did not make any significant contribution to consolidated revenue.

Material costs for all subsidiaries came to € 4.0 million, on the level of the previous year‘s figure of € 4.0 million. The cost-of-materials ratio rose from 67.8% in the first half of 2017 to 73.5%. Gross profit totalled € 1.4 million (previous year: € 1.9 million). The gross profit margin declined accordingly from 32.2% to 26.5%.

The result at subsidiary level came to € -2.2 million. This meant that it had deteriorated compared with the same period of the previous year (€ -0.8 million).

EBITDA (earnings from operations without interest, taxes, depreciation on property, plant and equipment and amortisation on intangible assets) declined year on year from € -1.2 million to € -2.7 million. The main reason for this was a larger loss at sleepz Home GmbH. Staff costs came to € 1.3 million, up € 0.3 million year on year (€ +0.4 million at sleepz Home GmbH, owing to the takeover of Cubitabo, and € -0.1 million at Grafenfels, no change at the Matratzen Union Group).

Overall, the Group closed the first half of 2018 with a consolidated net loss of € -2.8 million (previous year: € -2.2 million).

Financial position

Development of cash and cash equivalents (T€)	1. HY 2018	1. HY. 2017
Cash flow from operating activities	-2,563	-1,320
Cash flow from investment	-32	4,998
Cash flow from financing activities	2,475	-1,973
Cash and cash equivalents 1 Jan.	500	798
Cash and cash equivalents 30 June	**381**	**2,243**

Cash flow from operating activities deteriorated year on year from € -1.3 million to € -2.6 million.

Owing to the sale of discontinued operations in 2017, cash flow from investment changed significantly year on year from € 4,998 thousand as at 30 June 2017 to € -32 thousand as at 30 June 2018.

Cash flow from financing activities (€ 2.5 million) for the first six months of 2018 was shaped by borrowing, while in the same period of 2017 it was influenced by the implementation of two capital increases on one hand and by the repayment of loans in connection with the sale of discontinued operations on the other.

Cash and cash equivalents totalled € 381 thousand at the end of the reporting period (previous year: € 2,243 thousand).

Net assets

Non-current assets, which, along with property, plant and equipment, include intangible assets in particular, primarily goodwill from company acquisitions, came to € 5.19 million as at 30 June 2018 and therefore changed only slightly compared with the end of 2017 (€ 5.15 million). Their share of 62.2% in total assets as at 30 June 2018 had risen slightly compared with 31 December 2017, when it was 59.5%.

	30.06.2018	31.12.2017
Intangible assets	58.3%	55.6%
Other non-current assets	3.9%	3.9%
Inventories	22.3%	24.0%
Receivables	10.9%	10.8%
Cash at banks	4.6%	5.8%
Total	**100.0%**	**100.0%**

On the liabilities side, equity contracted significantly to € 3.54 million, compared with € 5.66 million at the end of the previous year. The changes in individual items allocated to equity resulted primarily from the non-cash capital increase of around € 3.5 million carried out in 2018 to purchase shares in sleepz Home GmbH and from ongoing losses in the reporting period.

Equity in € thousand	30.06.2018	31.12.2017
Subscribed capital	12,444	8,970
Capital reserve	3,486	707
Accumulated costs of capital increases	-1,358	-1,358
Other revenue reserves	-5,268	668
Accumulated net loss	-5,483	-2,892
Minority interests	-280	-435
Total	**3,541**	**5,660**

Thus, the equity ratio fell from 65.3% to 42.5%.

Current liabilities fell by € 0.6 million, while non-current liabilities increased by € 2.4 million, mainly owing to borrowing.

Bank loans of € 0.4 million had been utilised as at 30 June 2018.

OVERALL STATEMENT ON THE ECONOMIC SITUATION

SLEEPZ AG is anything but satisfied with the Group‘s business performance in the first half of 2018. Even though the Group‘s own revenue forecast for the first half of the year was conservative, it was very disappointed with the low gross profit margin of 26.5%. A gross profit margin of well over 30% is essential if the Group as a whole is to become profitable in the medium term. This will be possible only if product ranges are adjusted and private labels strengthened.

The liquidity position is weak in view of current losses, with cash and cash equivalents of € 381 thousand as at 30 June 2018 and a few overdraft facilities that have not been utilised. The SLEEPZ Group urgently requires injection of further liquidity in the second half of 2018 in order to continue developing and financing its current business operations as planned.

SUPPLEMENTARY REPORT

The Executive Board of SLEEPZ AG resolved on 9 August 2018, with the approval of the Supervisory Board, to issue a convertible bond with a total nominal value of up to € 7.00 million; the term was set at 36 months and the coupon at 6% p.a. („convertible bond 2018/2021“). The placement will run until the beginning of October, including a follow-up placement period.

The Executive Board of SLEEPZ AG signed a term sheet on 24 August 2018 with the main shareholders in URBANARA GmbH regarding a complete takeover of the Berlin-based online retailer URBANARA GmbH (www.urbanara.de). The company focusses on household textiles and home accessories under its own URBANARA brand and plans to generate revenue of approximately € 8 million in 2018. The term sheet sets out plans for the takeover to be implemented by way of a non-cash contribution in exchange for the issue of just under 5.2 million new no-par-value bearer shares in SLEEPZ AG, based on a value of € 1.20 per SLEEPZ share and a total value of € 6.2 million for URBANARA GmbH.

Implementation, for which the parties are aiming to have a contractual agreement in place by the end of September 2018, is subject to a series of suspensive conditions. In particular, these include confirmation of the aforementioned valuations by a report on the non-cash contribution, which has yet to be commissioned, satisfactory conclusion of due diligence, which has already begun, and raising of the necessary growth financing for the SLEEPZ Group and URBANARA as part of SLEEPZ AG‘s ongoing convertible bond placement.

Implementation would have an impact on the SLEEPZ Group‘s results of operations, net assets and financial position.

In addition, the Executive Board of SLEEPZ AG signed a term sheet on 7 September 2018 with the sole shareholder in Sam Stil-Art-Möbel GmbH („Sam“) in Kirchheimbolanden regarding a complete takeover of the online furniture retailer Sam. The company focusses on furniture, which it sells exclusively under private labels, and forecasts revenue of around € 15 million for 2018. The term sheet sets out plans for the takeover to be implemented by way of a non-cash contribution in exchange for the issue of 4 million new no-par-value bearer shares in SLEEPZ AG, based on a value of € 1.20 per SLEEPZ share and a total value of € 4.8 million for Sam Stil-Art-Möbel GmbH.

The transaction, which is to be implemented by the end of 2018, is subject to a series of suspensive conditions. In particular, these include confirmation of the aforementioned valuations by a report on the non-cash contribution, which has yet to be commissioned, satisfactory conclusion of due diligence, which has already begun, and raising of the necessary growth financing for the SLEEPZ Group and Sam as part of SLEEPZ AG‘s ongoing convertible bond placement. Implementation would have an impact on the SLEEPZ Group‘s results of operations, net assets and financial position.

Opportunities and Risk Report

The following main changes have occurred compared with the opportunities and risk report in the 2017 annual report; otherwise, the information in the 2017 annual report continues to apply:

FINANCIAL RISKS

Liquidity risk

The subsidiary sleepz Home GmbH is dependent on further injections of liquidity, as it will not be able to meet its financial requirements on its own until it breaks even. SLEEPZ AG is also dependent on a further liquidity injection in the short term, in order to be able to carry out company acquisitions that are necessary for growth.
In view of this, the Executive Board had planned, at the time the opportunities and risk report for the 2017 annual report was written, to carry out a larger capital measure in the second half of 2018 for which a prospectus would be required, and to resume work on a securities sales prospectus in the second quarter of 2018. This has now been put on hold, in order to carry out two acquisitions if possible before drawing up the prospectus. In the meantime, the Executive Board and Supervisory Board therefore resolved on 9 August 2018 to issue a convertible bond with a total nominal value of up to € 7.00 million. The placement and follow-up placement of the convertible bond will run until the beginning of October. If it is not possible to conclude the follow-up placement successfully, SLEEPZ AG must immediately tap into alternative sources of financing to avoid being put at risk. In this context, we continue to rate the risk as high.

Other financial risks:

The cluster of „financial risks“ also includes risks relating to the valuation of the subsidiaries; this valuation is subjected to an impairment test once a year and taken into account in the balance sheet if applicable. These constitute the bulk of the assets side of SLEEPZ AG‘s balance sheet, which means that any changes in value automatically have a significant impact on the balance sheet. If it is not possible to place the convertible bond successfully, the further financing of the subsidiary will be at risk. This would have a huge impact on the subsidiary‘s balance sheet value. We rate the risk as high.

C. OVERALL STATEMENT ON THE RISK AND OPPORTUNITIES SITUATION

Provisions have been made for discernible individual risks in the consolidated financial statements and individual financial statements as at 30 June 2018. Risks that could arise for the Group – and therefore also for SLEEPZ AG – from overall economic development, the market and competition on one hand and from operating activities on the other are limited and manageable, not least in view of the opportunities that arise for the Group in connection with the individual points. However, a requirement is that the Group must continue to receive the necessary liquidity for further growth, particularly from the placement of the „convertible bond 2018/2021“. If it succeeds in doing this, the occurrence of the risks described, either individually or together, would not pose a danger to the continuation of the Group as a going concern at present or in the foreseeable future.

FORECAST REPORT

SLEEPZ AG and its subsidiaries focus on online trading in the market segment „bedroom furniture and bedding“.

Overall economic conditions are expected to continue to develop positively in the main market of Germany in 2018, with economic growth forecast to be around 2%. At the same time, internet trade in our business segment „furniture“ is growing disproportionately, and we anticipate growth of 10–20% p.a. for the next three years. The sub-segment „sleep products“ is also sharing in this development.

The massive price war in the e-commerce sector, particularly in the brand-name mattress segment, led to erosion of the gross profit margin in the first half of 2018. This has already caused some market players to disappear from the market due to insolvency or to withdraw from the German market. We therefore expect the market to stabilise to some extent during the rest of the year. However, it will not be possible to compensate fully in the second half of 2018 for the weak gross profit margin in the first half of the year, even if we expect pressure to ease.

The SLEEPZ Group is still aiming for moderate revenue growth of a low double-digit percentage in the current year. In terms of income, we will strive to significantly reduce our losses in the second half of 2018 following the weak first half of the year, and therefore still expect a slight improvement in consolidated net income.

Where SLEEPZ AG provides services to affiliates, it passes on the costs of these services to the affiliates. However, this is not currently sufficient to cover the services purchased as well as administrative and stock market costs, so we expect SLEEPZ AG as a whole to remain in the red in 2018.

If, after the placement of the convertible bond, SLEEPZ AG‘s financial situation allows it, the company is planning two acquisitions in the business year, URBANARA and Sam Stil-Art-Möbel.

Berlin, 12 September 2018

Oliver Borrmann　　　　Alexander von Tschirnhaus

Group Balance Sheet as at 30 June 2018

ASSETS

	30.06.2018	31.12.2017
	€	T€
LONG-TERM ASSETS		
Intangible assets	4,862,034.69	4,815
Tangible assets	309,879.10	319
Fixed asset securities	16,666.00	17
	5,188,579.79	
CURRENT ASSETS		
Inventories	1,856,464.13	2,079
Trade accounts receivable	335,686.73	349
Receivables and other assets	576,415.08	585
Cash on banks and cash on hand	381,095.72	500
	3,149,661.66	
TOTAL ASSETS	**8,338,241.45**	**8,664**

LIABILITIES

	30.06.2018	31.12.2017
	€	**T€**
SHAREHOLDERS´ EQUITY		
Subscribed capital	12,443,554.00	8,970
Capital reserves	3,485,952.61	707
Accumulated costs of capital increases	-1,357,944.38	-1,358
Other revenue reserves	-5,267,708.30	668
Accumulated net loss	-5,482,634.07	-2,892
Minorities	-279,757.20	-435
	3,541,462.66	
NON-CURRENT LIABILITIES		
Liabilities towards banks	0.00	12
Loans	2,816,913.89	396
	2,816,913.89	
CURRENT LIABILITIES		
Trade accounts payable	814,652.47	457
Liabilities towards banks	444,303.14	533
Prepayments received	129,178.25	392
Other liabilities	558,273.78	1,180
Provisions	33,457.26	33
	1,979,864.90	
TOTAL LIABILITIES	**8,338,241.45**	**8,664**

Statement of Comprehensive Income

FOR THE PERIOD FROM 1.1.2018 TO 30.06.2018

	1.1.-30.06. 2018	1.1.-30.06. 2017
	€	T€
SALES REVENUE	5,460,959.64	5,865
OTHER OPERATING INCOME		
Other operating income	20,753.78	129
Income from consulting and commissions	9,000.00	102
CHANGE IN INVENTORIES	0.00	-22
COST OF MATERIALS		
Cost of sales and services purchased	-4,011,998.38	-3,978
STAFF COSTS		
Wages and salaries	-1,060,540.82	-931
Social security contributions and costs for pensions and support	-277,456.95	-165
DEPRECIATIONS		
Depreciation on tangible and intangible fixed assets	-82,811.43	-133
OTHER OPERATING EXPENSES	-2,850,983.22	-2,210
OPERATING INCOME	**-2,793,077.38**	**-1,343**
Income from investments	9,477.82	72
Interest and similiar income	165.80	1
Interest and similiar expenses	-52,079.70	-194
Income taxes	-270.55	-31
RESULT FROM CONTINUING OPERATIONS	**-2,835,784.01**	**-1,495**
Result from discontinued operations	0.00	-754
CONSOLIDATED NET RESULT	**-2,835,784.01**	**-2,250**
Share of result of non-controlling interests	245,608.35	130
result attributable to shareholders of the company	-2,590,175.66	-2,120
Earnings per share from continuing operations	-0.25	-0.19
Earnings per share from discontinued operation	0.00	-0.11
Earnings per share (diluted and non-diluted)	-0.25	-0.30
CONSOLIDATED NET RESULT	**-2,835,784.01**	**-2,250**
Other comprehensive income	0.00	0
COMPREHENSIVE INCOME	**-2,835,784.01**	**-2,250**

Group Cash-Flow Statement

FOR THE PERIOD FROM 1.1.2018 TO 30.06.2018

	2018 T€	2017 T€
CASH-FLOW FROM OPERATIONS		
Consolidated net result	-2,836	-2,250
Result of discontinued operation	0	754
Depreciation of intangible and tangible assets	83	133
Share of result of non-controlling interests	246	130
Decrease/(-) increase in assets and increase/(-) decrease in liabilities		
Receivables and other assets	22	254
Inventories	222	184
Other liabilities	-299	-502
Provisions	0	-22
CASH-FLOW FROM ORDINARY BUSINESS ACTIVITIES	**-2,563**	**-1,320**
CASH FLOW-FROM INVESTMENTS		
Additions to fixed asset securities	0	-4
Additions to intangible and tangible assets	-120	2
Change of the share in subsidiaries	88	0
Sale of discontinued operations	0	5,000
TOTAL CASH-FLOW FROM INVESTMENTS	**-32**	**4,998**
CASH FLOW-FROM FINANCING		
Capital increase	0	1,934
Change in liabilities towards banks	-101	-778
Minorities	156	-130
Loans	2,421	-3,000
TOTAL CASH-FLOW FROM FINANCING	**2,475**	**-1,973**
CHANGE IN LIQUID FUNDS	**-119**	**1,705**
Cash-flow from discontinued operation	0	-260
TOTAL CHANGE IN LIQUID FUNDS	**-119**	**1,445**
Cash and cash-equivalents at the beginning of the year	500	798
Cash and cash-equivalents at the end of the reporting period	381	2,243

Statement of Changes in Equity

Figures in T€	Subscri-bed capital	Capital reserve	Other revenue reserves	Minorities	Accumu-lated net result	Total
EQUITY AS AT 01.01.2018	**8,970**	**-649**	**668**	**-435**	**-2,894**	**5,660**
Consolidated net result				-246	-2,590	-2,836
Capital increase	3,473	2,779	-5,936			316
Share of non-controlling interests				401		401
EQUITY AS AT 30.06.2018	**12,443**	**2,130**	**-5,268**	**-280**	**-5,484**	**3,541**
EQUITY AS AT 1.01.2017	**20,701**	**1,051**	**668**	**340**	**-15,174**	**7,586**
Capital decrease	-13,801				13,801	0
Dissolution of the capital reserve		-2,659			2,659	0
Capital increase	2,070	933				3,003
Share-based compensation		26				26
Consolidated net result				-775	-4,180	-4,955
EQUITY AS AT 31.12 2017	**8,970**	**-649**	**668**	**-435**	**-2,894**	**5,660**

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 2017 in accordance with the International Financial Reporting Standards (IFRS) adopted by the European Union. Accordingly, these interim financial statements as at 30 June 2018, 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

After the reporting date, the Executive Board of SLEEPZ AG, with the approval of the Supervisory Board, resolved to issue convertible bonds with a total nominal value of up to EUR 7 million. The placement will continue until the beginning of October.

Furthermore, SLEEPZ AG has signed a termsheet for the acquisition of 100% of the shares of URBANARA GmbH. The company focuses on home textiles and home accessories under its own brand URBANARA and generates sales in the upper single-digit million euro range.
The takeover is to take place against the issue of shares in SLEEPZ AG in the form of a contribution in kind. The share price of SLEEPZ AG was set at EUR 1.20 and the valuation of URBANARA GmbH - after conversion of outstanding convertible loans of EUR 1.1 million - at EUR 6.2 million. In the event of further financing for URBANARA prior to the acquisition by SLEEPZ, the valuation of the company may be adjusted. The final evaluation will take place after confirmation by an expert opinion on the investment in kind to be commissioned.

Also after the reporting date SLEEPZ AG agreed with the sole shareholder of Sam Stil-Art-Möbel GmbH (“SAM” - www.stilartmoebel.de) on a termsheet for the takeover of all shares. The Kirchheimbolanden-based online retailer designs and sells a wide range of furniture. “SAM” generates sales in the lower double-digit million EUR range.
The takeover is to take place against the issue of shares of SLEEPZ AG in the form of a contribution in kind. The share price of SLEEPZ AG was set at EUR 1.20, the valuation of “SAM” at EUR 4.8 million. The final valuation will take place after confirmation by an expert opinion on the investment in kind to be commissioned.

ACCOUNTING POLICIES

SLEEPZ AG has implemented all accounting standards endorsed by the EU and effective for financial periods from 1 January 2018.

The accounting standards applicable for the first time in the 2018 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 2017 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 2017 annual financial statements. A detailed description of these methods was also published in the notes to the annual financial statements for the 2017 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. 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.

3. SCOPE OF CONSOLIDATION

Name	Principal activities	Headquarters	Share of capital and voting rights as at 30.06.2018	Share of capital and voting rights as at 31.12.2017
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	92.03 %	66.8 %
Matratzen Union GmbH	Purchasing and selling mattresses, bedding and sleep systems	Wolfhagen, Germany	60.00 %	60.00 %
Markenschlaf GmbH	Trading in goods of all kinds, particularly products relating to sleep, furnishings and living, as well as comparable consumer goods	Wolfhagen, Germany	60.00 %	60.00 %
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	60.00 %	60.00 %
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	60.00 %	60.00 %
Grafenfels Manufaktur GmbH	Designing, manufacturing and selling mattresses, bedding, bed linen and all other products relating to the theme “sleep”	Berlin, Germany	100 %	100 %

4. 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.

5. 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:

2018 T€	At fair value Book value	At amortized costs Book value	Balance sheet item as at 30.06.18
Non-current assets			
Fixed asset securities		17	17
Current assets			
Trade accounts receivable		336	336
Receivables and other assets		576	576
Cash in hand and bank balances		381	381
Total	**0**	**1,310**	**1,310**
Non-Current liabilities			
Loans		2,817	2,817
Liabilities towards banks		0	0
Current liabilities			
Trade accounts payable		815	815
Liabilities towards banks		444	444
Other liabilities		558	558
Advance payments received		129	129
Total	**0**	**4,763**	**4,763**

2017 T€	At fair value Book value	At amortized costs Book value	Balance sheet item as at 31.12.17
Non-current assets			
Fixed asset securities		17	17
Current assets			
Trade accounts receivable		349	349
Receivables and other assets		585	585
Cash in hand and bank balances		500	500
Total	**0**	**1,451**	**1,451**
Non-Current liabilities			
Loans		396	396
Liabilities towards banks		12	12
Current liabilities			
Trade accounts payable		457	457
Liabilities towards banks		533	533
Other liabilities		780	780
Advance payments received		392	392
Loans		400	400
Total	**0**	**2,970**	**2,970**

6. SIGNIFICANT EVENTS AND BUSINESS TRANSACTIONS

The share capital was increased in a capital increase for contributions in kind by EUR 3,473 thousand, see no. 9.

7. 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.

8. ESTIMATES

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

9. CHANGES IN SHARES

SLEEPZ AG carried out a capital increase during the reporting period. the Executive Board, with the approval of the Supervisory Board, resolved to increase the company's share capital by EUR 3,473,163.00 from its current EUR 8,970,391.00 to EUR 12,443,554.00 by issuing 3,473,163 new bearer shares with a proportional amount of the share capital of EUR 1.00 in exchange for contributions in kind, partially utilising existing authorised capital and disapplying shareholder subscription rights.

SLEEPZ AG has increased its already existing stake in sleepz Home GmbH from 40.62% to approx. 92.03%. The exchange ratio between the 250,068 sleepz Home business shares to be contributed and the 3,473,163 new SLEEPZ shares to be issued was based on a valuation of EUR 1.80 for the SLEEPZ share and was confirmed in an expert valuation.

The new shares are entitled to share in profits as of 01.01.2017.

10. OTHER REVENUE RESERVES

Other revenue reserves are negative due to the netting of the increase in the majority shareholding in the financial year, without an effect on the income statement.

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 our 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

ABOUT SLEEPZ AG

SLEEPZ AG is an e-commerce group focussing on the segment of sleep products. Its subsidiary companies sleepz Home GmbH, Matratzen Union GmbH, Ecom Union GmbH and Markenschlaf GmbH sell products such as bedroom furniture, beds, slatted frames, mattresses, bedding and accessories through 13 own online shops as well as online market places and shopping clubs.

Under the „buddy" brand (www.buddysleep.de) sleepz Home GmbH mainly markets its one fits all-mattress of the same name.

Grafenfels Manufaktur GmbH (www.grafenfels.de) has developed an own mattress collection under the „Grafenfels" brand.

Furthermore, the group runs showrooms in Berlin, Dusseldorf, Berlin, Hamburg, Munich and Zurich.

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