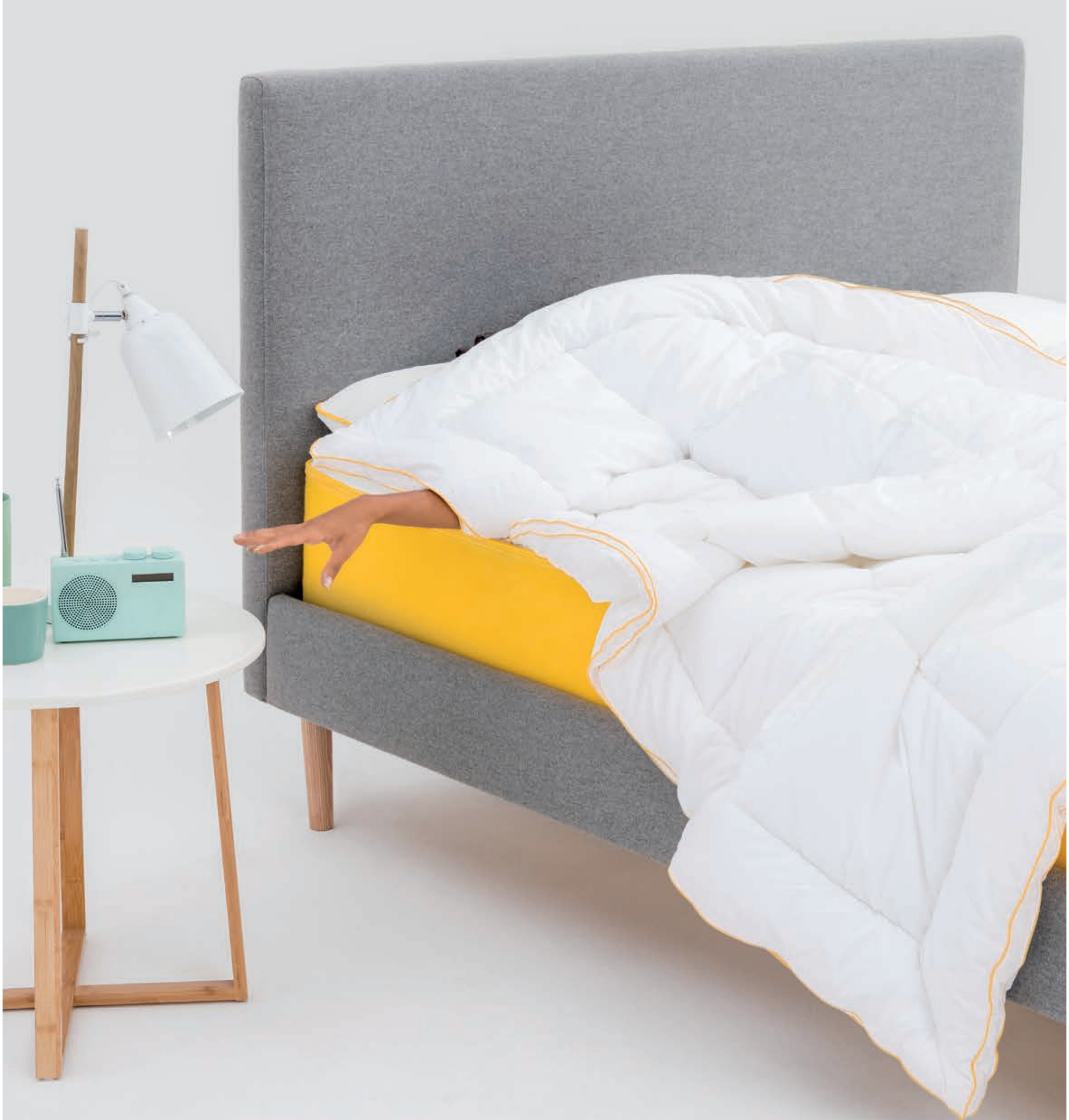
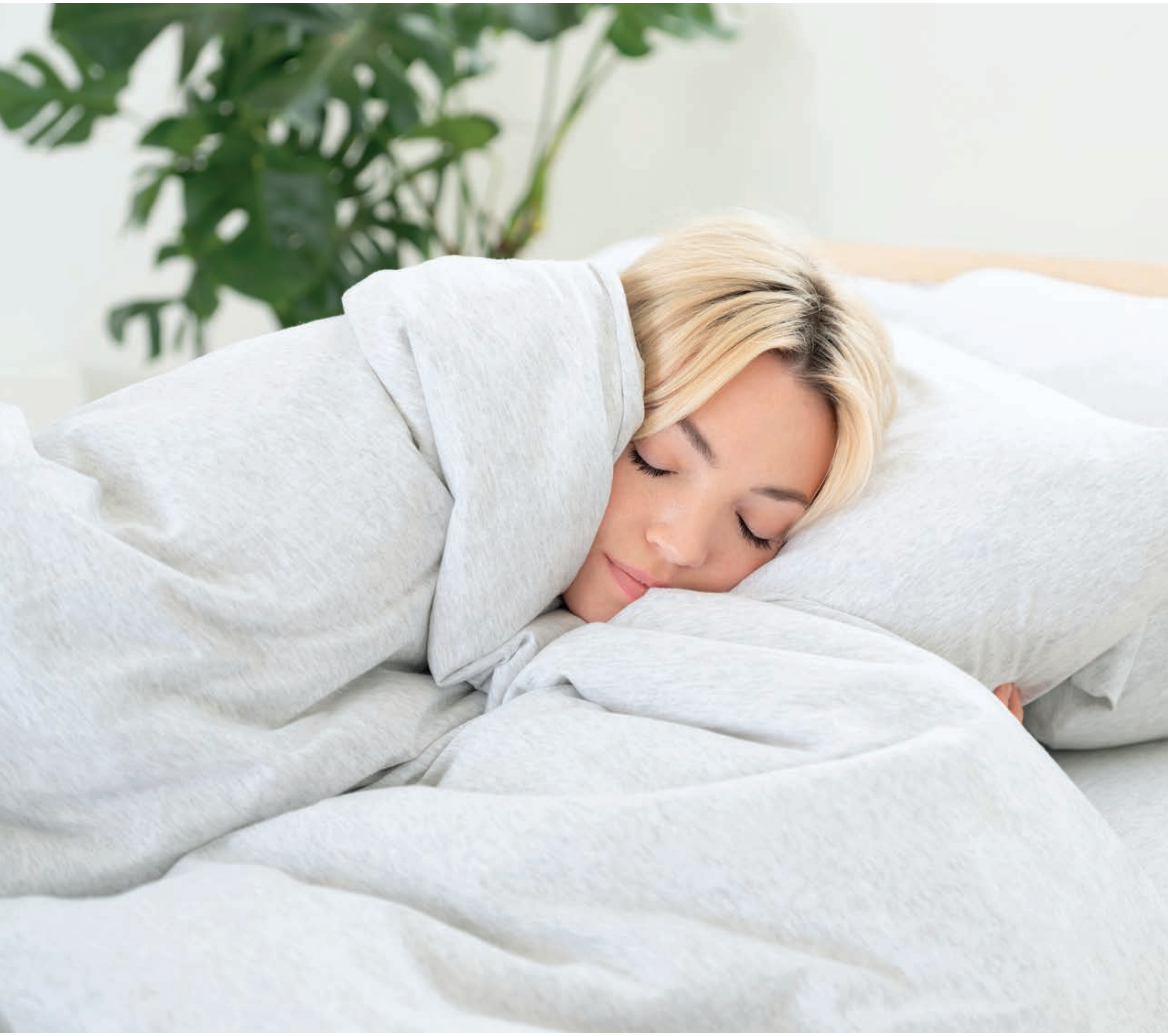
annual report

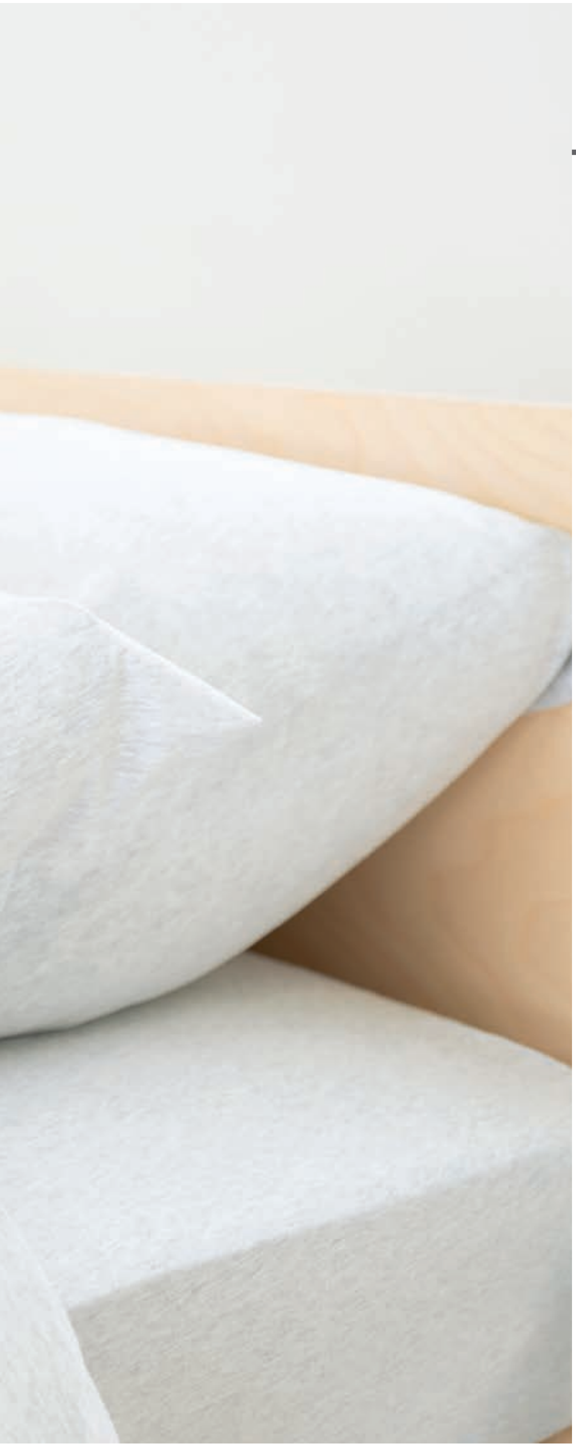
eve Sleep plc 2018



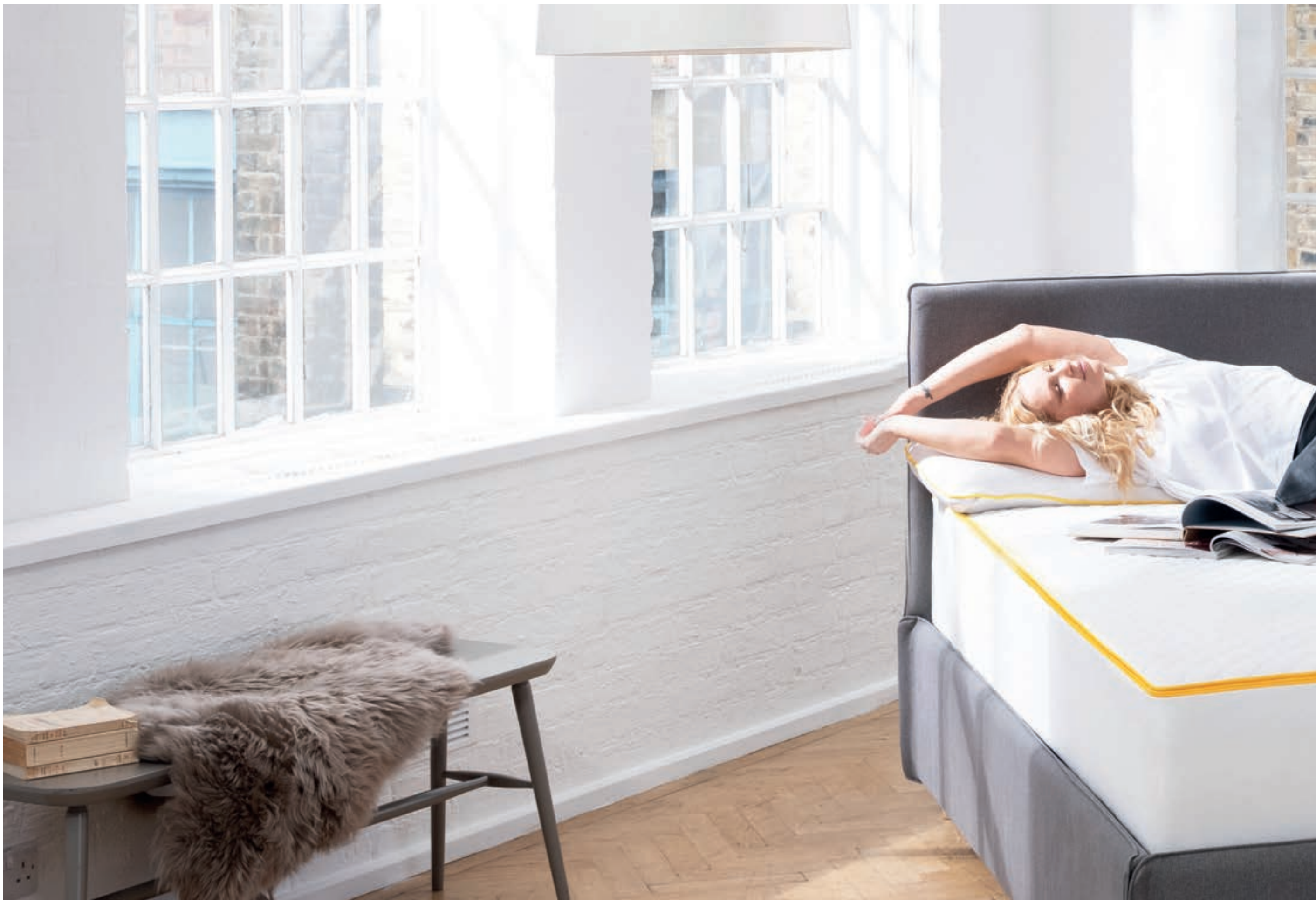

eve

*Good morning!
Welcome to
eve's 2018 annual
report...*





contents



company

information

directors
Paul Pindar (Non-executive Chairman)
James Sturrock (Chief Executive Officer)
Abid Ismail (Chief Financial Officer)
Thomas Enraght-Moony (Non-executive Director)
Nikki Crumpton (Non-executive Director)

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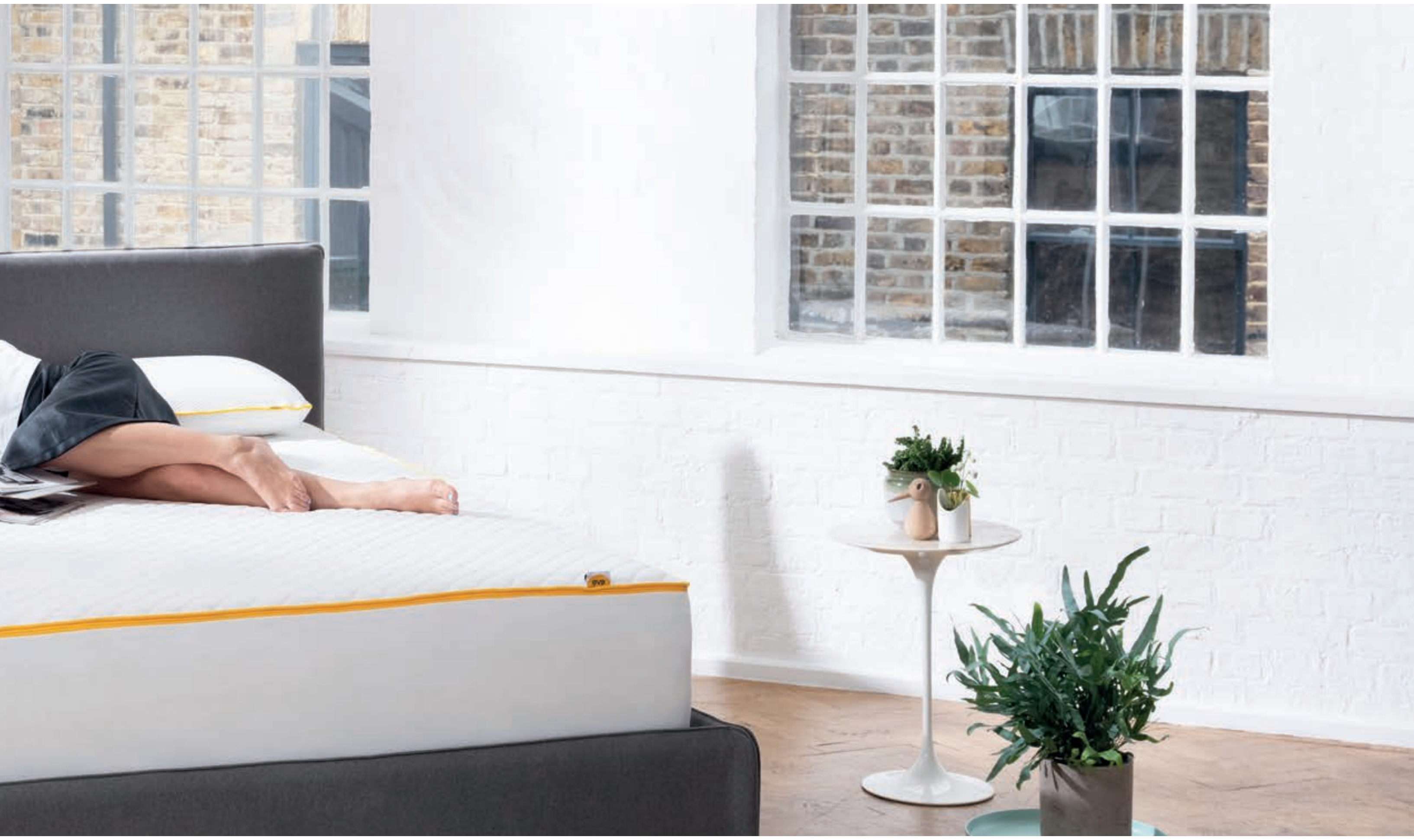
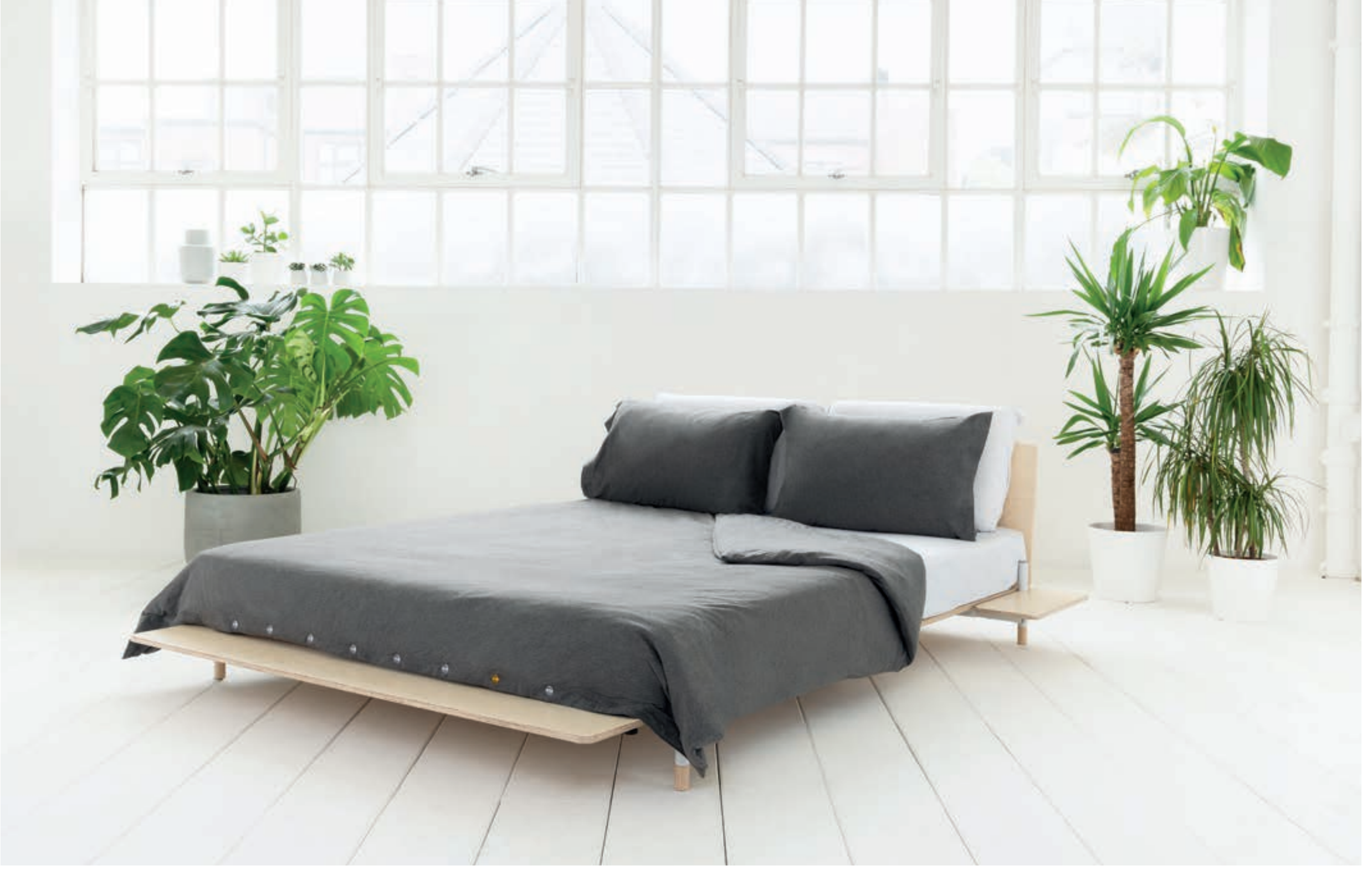




group

chairman's statement

"There was much to be proud of in 2018, with considerable progress made in many key elements of the strategy, which we will build upon in 2019 and beyond."

Paul Pindar

overview

2018 was a tough year for the business but I am pleased to state that following substantial restructuring[1] in the second half of the year we enter 2019 in better shape and on a sounder financial footing. It became apparent in the first half of 2018 that the costs of rapid international expansion across Europe were too great and that there were more profitable opportunities for growth in the Core Markets in which eve had growing brand awareness and was experiencing more efficient growth in revenue. Swift and decisive action was taken, including a change in CEO and, following a country-by-country review, a refocus, for now, on our most developed markets of the UK&I and France, resulting in the withdrawal from other European territories and the US over the summer months. As a result we now operate from a materially lower cost base.

There was also much to be proud of in 2018, with considerable progress made in many key elements of the strategy, which we will build upon in 2019 and beyond. Product development remains a key focus and in 2018 eve extended the mattress range from the original, adding a hybrid mattress (of foam and spring construction) as well as a premium and an entry price offering. In tandem, additional non-mattress sleep products were added, with the result that the total range has increased to 21 products (2017: 15) by the end of the year, with Core Markets non-mattress sales accounting for 19% of total Core Markets sales in 2018 (2017: 14%).

We have always believed that we should be where the consumer shops and as such we remain committed to our ecommerce led, multi-channel approach, working with leading retail partners. This approach, along with our marketing investment has driven a substantial improvement in brand awareness in the Core Markets and substantial revenues. As at February 2019 eve was the 5th most recognised mattress brand in the UK and the most well-known of the "mattress in a box" brands. This is an impressive achievement in just four years since launch.

performance

Group revenues in the year grew 25% to £34.8m, with gross profit increasing 15% to £18.4m. The gross profit margin reduction from 57.7% to 52.8% year on year was primarily due to the planned shift in channel mix to omni-

channel and increased sales of typically lower margin non-mattress products. Group underlying EBITDA[2] losses increased 27% to £19.2m on the £15.1m reported in 2017, primarily reflecting a 24% increase in administrative expenses and the reduction in gross margin.

An analysis of the Core Markets performance provides a better reflection of underlying trading trends. The Core Markets revenues in the year grew 35% to £29.4m (2017: £21.7m), with marketing costs as a percentage of revenues reducing by 360bps to 54.3% in 2018 from 57.9% in 2018. In the UK&I, marketing costs as a percentage of revenues reduced by 840bps to 46.6% in 2018 from 55.0% in 2017.

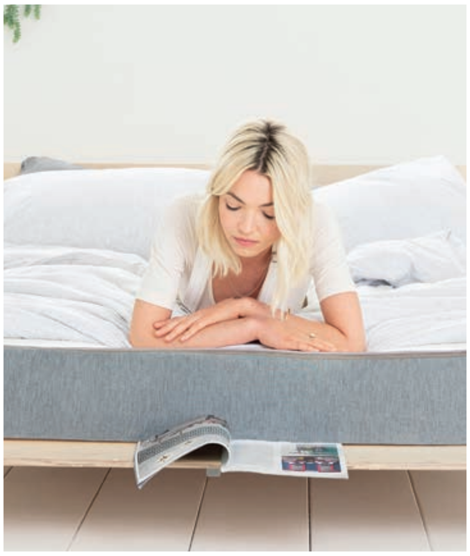
our people

There has been much change this year, which can be unsettling for our people. I have been really impressed with how the entire team has embraced this and I would like to personally thank them for their continued loyalty, professionalism and commitment to eve. Our people are our most valuable asset and we continue to invest in their development and wellbeing. The market opportunity for eve is undiminished and I am confident that we now have the right strategy, funding and team, led by James to deliver value for our shareholders.

Paul Pindar
Chairman
11 March 2019

Notes

1. In July 2018, the Board reviewed the number of territories that eve traded from, deciding to focus on the Core Markets of UK&I and France, withdrawing, for now, from other territories. As a result, Group revenue for 2018 includes approximately seven months of trading from 15 territories, and approximately 5 months of trading in UK&I and France. The 2017 comparatives have not been restated and reflect trading for the 12 months across a larger European footprint.
2. Underlying EBITDA is calculated as earnings before interest, taxation, depreciation, amortisation, share-based payment charges (2017 and 2018), IPO-related expenditure (2017 only) and staff and country exit costs (2018 only).



strategic report

strategic review

The European sleep market is estimated to be worth £26bn, with the Core Markets that eve is now focused on (UK&I and France) being worth £6bn.

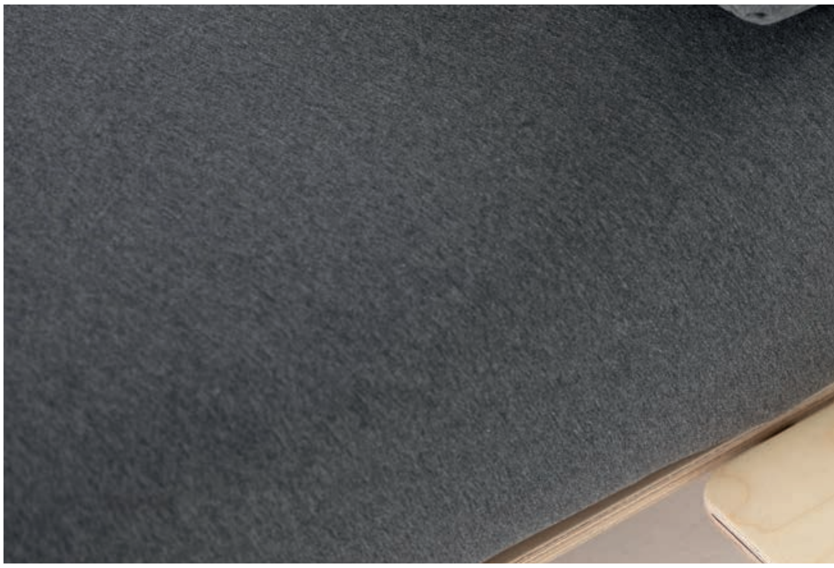
Introduction

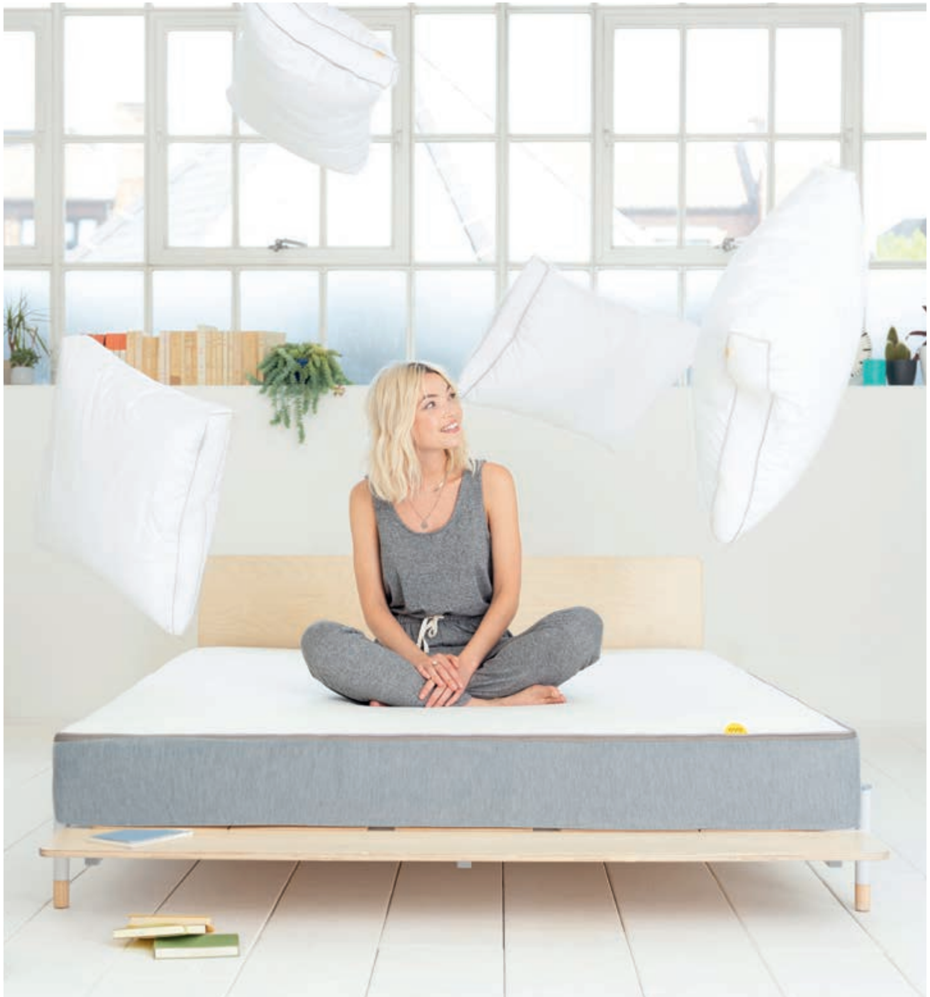
The European sleep market is estimated to be worth £26bn, with the Core Markets that eve is now focused on (UK&I and France) being worth £6bn. While there are many traditional operators, in what is a highly fragmented sleep market across Europe, there are limited well branded digital operators of any meaningful size owning the wider sleep category. There is also an increasing willingness on the part of consumers to purchase big ticket items online, with Euromonitor predicting that the online furniture market will be the second fastest growing retail category, with online purchase penetration expected to increase by 55% between 2018 and 2023.

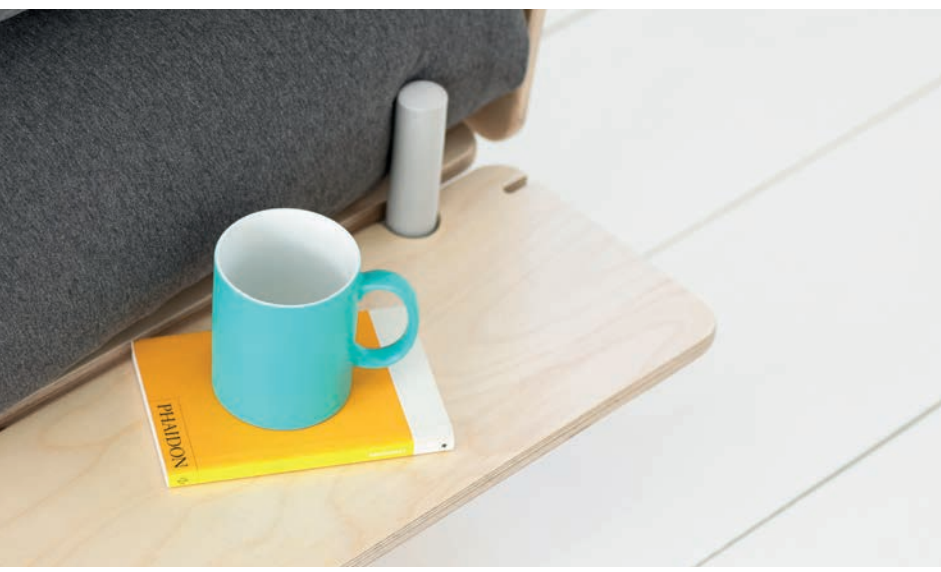
There is also an increasing awareness of the importance of sleep for everyday health and wellbeing and the dangers of having insufficient sleep. There is currently no brand in Europe that has established itself as a sleep wellness brand. eve's ambition is to achieve just this; to be seen as the go to brand for sleep wellness products.

Business Model

eve is a direct to consumer led business supported by retail partnerships. The direct to consumer focus enables greater control over the customer journey and experience and to build an on-going relationship with the customer. The central strategy for the business is to establish eve as a sleep wellness brand. Accordingly, resources in terms of investment and talent are focused on the key operations of product development, branding,







marketing and customer experience that will facilitate the achievement of this objective.

Manufacturing and fulfilment, which require heavy fixed cost investment are outsourced to leading third party suppliers in the UK and Continental Europe. This set-up has proved to be highly scalable and flexible, enabling significant seasonal variations in monthly product demand to be met without any noticeable margin impact or the requirement to hold large amounts of mattress stock. There is also a close working relationship with eve's manufacturing partners to innovate and develop new products that work better in terms of function and design and that differentiate eve from peers, without a premium price tag.

Establishing eve as a sleep wellness brand is a major differentiator to its mattress-only focused peers and will give the Group the authority and trust to sell a broader range of products in the category to its customer base. This in turn is expected to increase the level of repeat purchases and improve marketing efficiency, a key element of the new strategy to building a sustainable and growing business on a clear path to profitability. The increased scale from additional revenues is also expected to drive down overheads as a percentage of revenues. Aligned with the business objectives, unprompted brand awareness, eve's website conversion rate and marketing efficiency are all KPIs of the Group. Trends in all operational KPIs in the Core Markets of UK&I and France have been positive in 2018.

The inherent agility in the business model was demonstrated in the year, when the decision to focus on the UK&I and France, withdrawing from other European territories, was achieved at minimal cost and disruption.

strategic report

CEO statement

"Sleep grows ever more relevant in a world where wellbeing, wellness and a desire to switch off and de-stress is becoming more and more of a zeitgeist of modern living."

James Sturrock

what attracted me to eve?

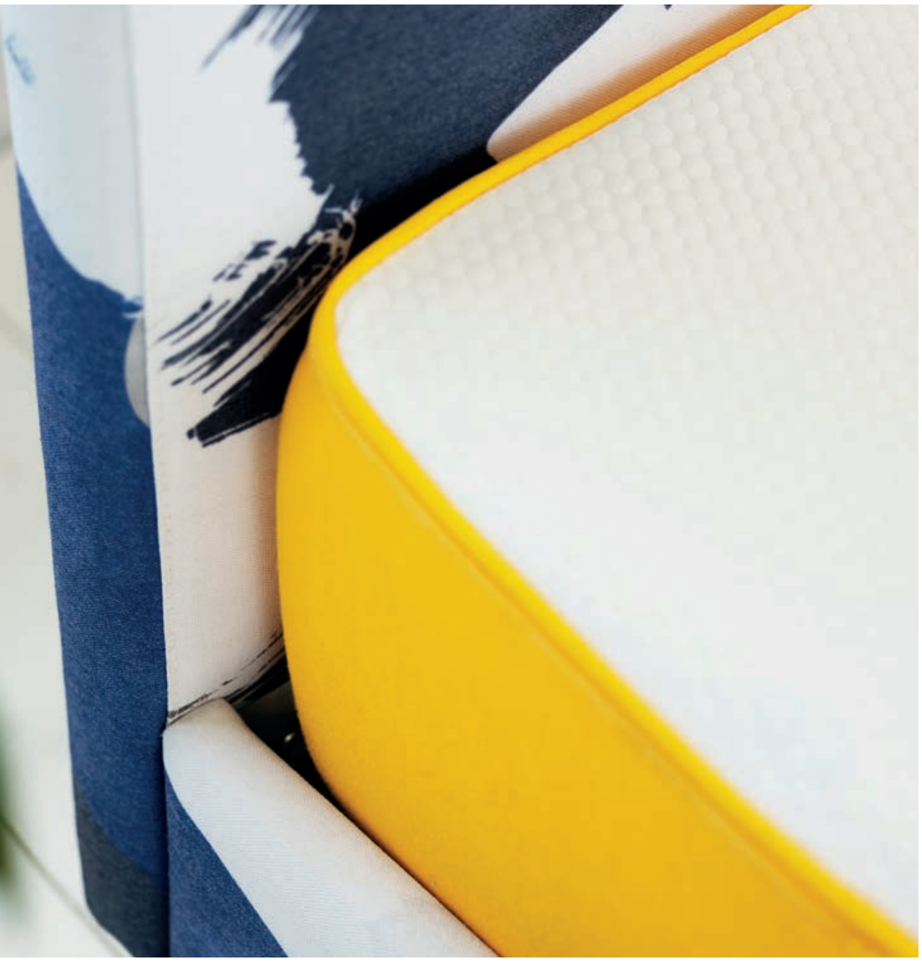
I joined eve in September 2018 because I believe in eve's mission to bring sleep wellness to the nation. 1 in 5 consumers say they have restless nights due to discomfort or anxiety (YouGov Survey 2017). Sleep grows ever more relevant in a world where wellbeing, wellness and a desire to switch off and de-stress are becoming more and more of a zeitgeist of modern living. eve has not only created beautiful products to give everyone the best possible start to the day but has also simplified the way mattresses and other sleep products are purchased and delivered. Our sleep products are rated highly by consumers as evidenced by our Trustpilot score of 9.4 out of 10 and our recent win of a Which? Best Buy rating. I believe that we are on our way to building a brand that is differentiated and can be the category leader.

business review

While there was considerable progress in 2018, including 35% revenue growth in Core Markets and a substantial improvement in UK unprompted brand awareness, our financial performance fell short of our own and the market's expectations. This was due primarily to company specific factors related to over expansion into too many countries too quickly and not helped by the uncertain and challenging retail market backdrop.

To address this underperformance, one of my first actions since joining eve was to lead a Board review of the Group's business, which has resulted in an updated, and fully funded, rebuild strategy, with many improvements already made. The central objective of the strategy is to build the team, the systems

and the products in order to create a platform enabling sustainable future growth for the business, which has an increased focus on cash generation and profitability. In addition to a territory refocus, to support this central objective, action has been taken to reduce inefficient investment in marketing and reducing overheads in 2019, when compared to 2018.



the rebuild strategy

The rebuild strategy focuses on three core pillars:

- differentiated brand positioning;
- expanded product range; and
- lower friction customer experience.

differentiated brand positioning

We are broadening the Group's current position to become a trusted destination for a wider range of products. To achieve this we are refocusing marketing investment and communications around the benefits that eve can bring consumers in sleep wellness.

We start from a good place, having already invested significantly in marketing over the last two years in our Core Markets, including campaigns "Every great day starts the night before" and "Join the Sleep rich". The success of our marketing to date is demonstrated in our unprompted UK brand awareness, which has increased consistently from 1.4% in December 2016 to approximately 10% today. In 2018 eve was the UK's 5th most well-known mattress brand and the most well-known bed-in-a-box brand. In France in 2018, eve was the 8th most well-known mattress brand and the most well-known bed-in-a-box brand.

The efficiency of our marketing spend has improved in our Core Markets in tandem with our growing awareness. In the UK&I marketing as a percentage of revenue has fallen from 62.5% in 2016, 55.0% in 2017 to 46.6% in 2018. Notwithstanding this substantial progress, more can be achieved.

Our new Chief Marketing Officer, Cheryl Calverley, who has previously worked at the AA and Unilever, joined in December 2018. Cheryl is charged with building a strong brand that consumers can relate to; a brand that will be front of mind when they look at making purchases in the category.

To measure our success in delivering on this strategic pillar we will be monitoring and reporting on the KPI of unprompted brand awareness in the UK and marketing costs as a percentage of revenues will continue to be a KPI, given its importance for the pathway to profitability.

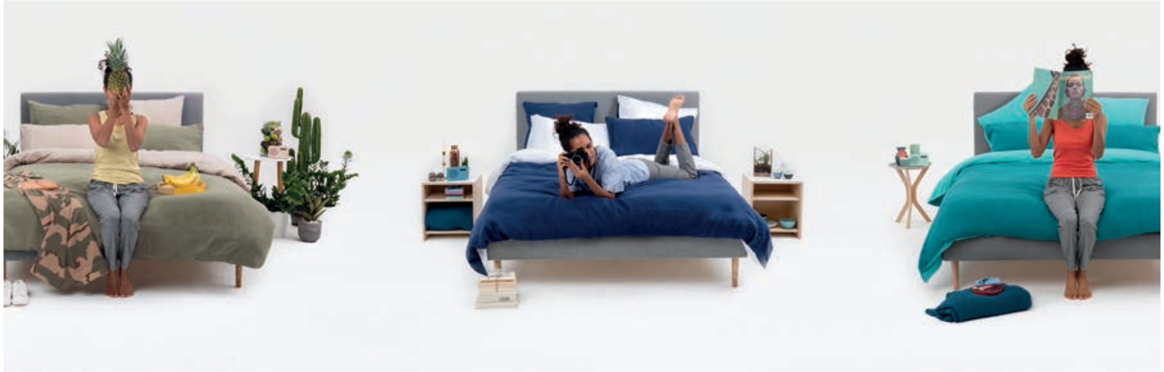
expanded product range

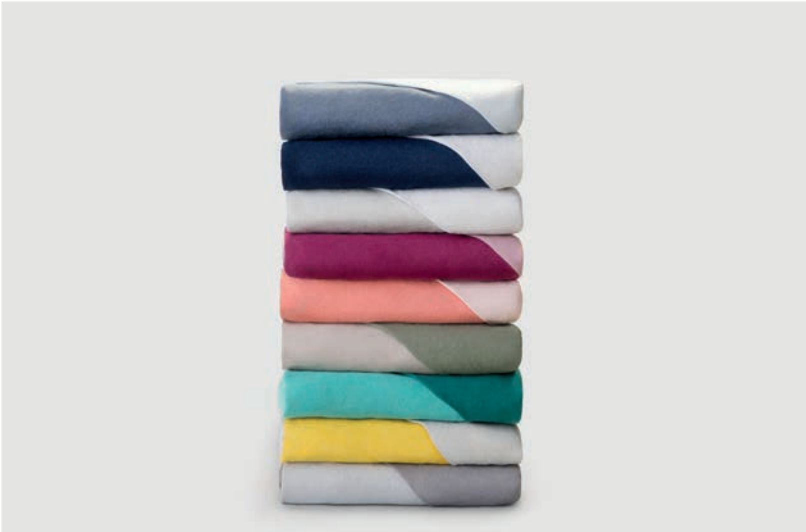
We are building out a range of sleep products to complement our successful next generation foam mattress, giving eve a clear trajectory to owning the ecommerce sleep wellness space in our chosen markets and encouraging a stronger repeat purchase business model.

Recent new products include a baby mattress, a light and premium mattress to address all price points as well as a hybrid mattress (of foam and spring construction) to target a broader range of consumer preferences. During the year we also launched a selection of bed frames and extended our range of bed linens.

Range expansion helped to drive a repeat purchase rate of 14% in 2018 in the Core Markets, up from 11% in 2017. In addition, sales from non-mattress products increased in 2018 to 19% of total sales in the Core Markets (2017: 14%).

To measure our success in delivering on this strategic pillar we will be monitoring and reporting on the KPIs of product returns rate, conversion rates and the growth in non-mattress sales.





lower friction customer experience

Enhancing customer experience throughout the online journey and in our service proposition to enable stronger site conversion and customer satisfaction metrics is core to our rebuild strategy. Improved conversion will not only drive higher revenues but also greater marketing efficiency, which is key to achieving profitability.

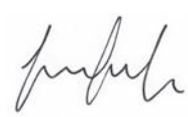
We have set up specific squads in our Digital Product team tasked with identifying the friction points in the customer research, consideration and purchase journey and implementing solutions to create an optimised experience. A number of improvements to the customer experience have already been made, which have contributed to a positive increase in the conversion rate in the Core Markets. By way of example, we have recently improved our delivery offering, adding a premium service to complement our free standard delivery, as well as a greater choice of time slots, including nominated day delivery and a choice of morning or afternoon slots.

There are additional developments to the online purchasing experience including improvements to the search, discovery and checkout processes on the website and plans to further improve post-sales customer relationship marketing encouraging repeat purchase behaviour.

To measure our success in delivering on this strategic pillar we will be monitoring and reporting on the KPIs of conversion rates and our Net Promoter Score (NPS).

2019 focus summary

The focus for the next six to twelve months is to continue to lay the foundations for the rebuild strategy, embed the changes into the business and to focus on reducing underlying EBITDA losses, whilst growing revenue in a sustainable way. Notwithstanding on-going macro headwinds in 2019, I am confident that we have the team, strategy and product range, combined with the strength of brand, to build a sustainable and profitable business which meets the needs of our customers and delivers value for shareholders.



James Sturrock
Chief Executive Officer
11 March 2019

strategic report

Key performance indicators

In 2018, for approximately seven months of the year, eve was operating in fifteen territories. Where Group is referred to this relates to trade in all eve territories. Early in the second half of the year, eve rationalised the markets in which it operated to focus on UK&I and France and these three countries are referred to as the Core Markets.

In 2018, the key performance indicators (KPIs) used to evaluate and monitor the performance of the business were updated to support the three core pillars of the rebuild strategy (differentiated brand positioning, extended product range and lower friction customer experience). In 2017, closing cash and gross margin were financial KPIs of the Group; in 2018, the impact on cash and gross margin is monitored via the financial KPIs set out below and therefore these metrics are no longer separate financial KPIs of the business. There are now three financial KPIs and five operational KPIs.

Financial KPIs[1]

Overall revenue growth

Marketing efficiency

Underlying EBITDA[2]

Operational KPIs[1]

UK brand awareness

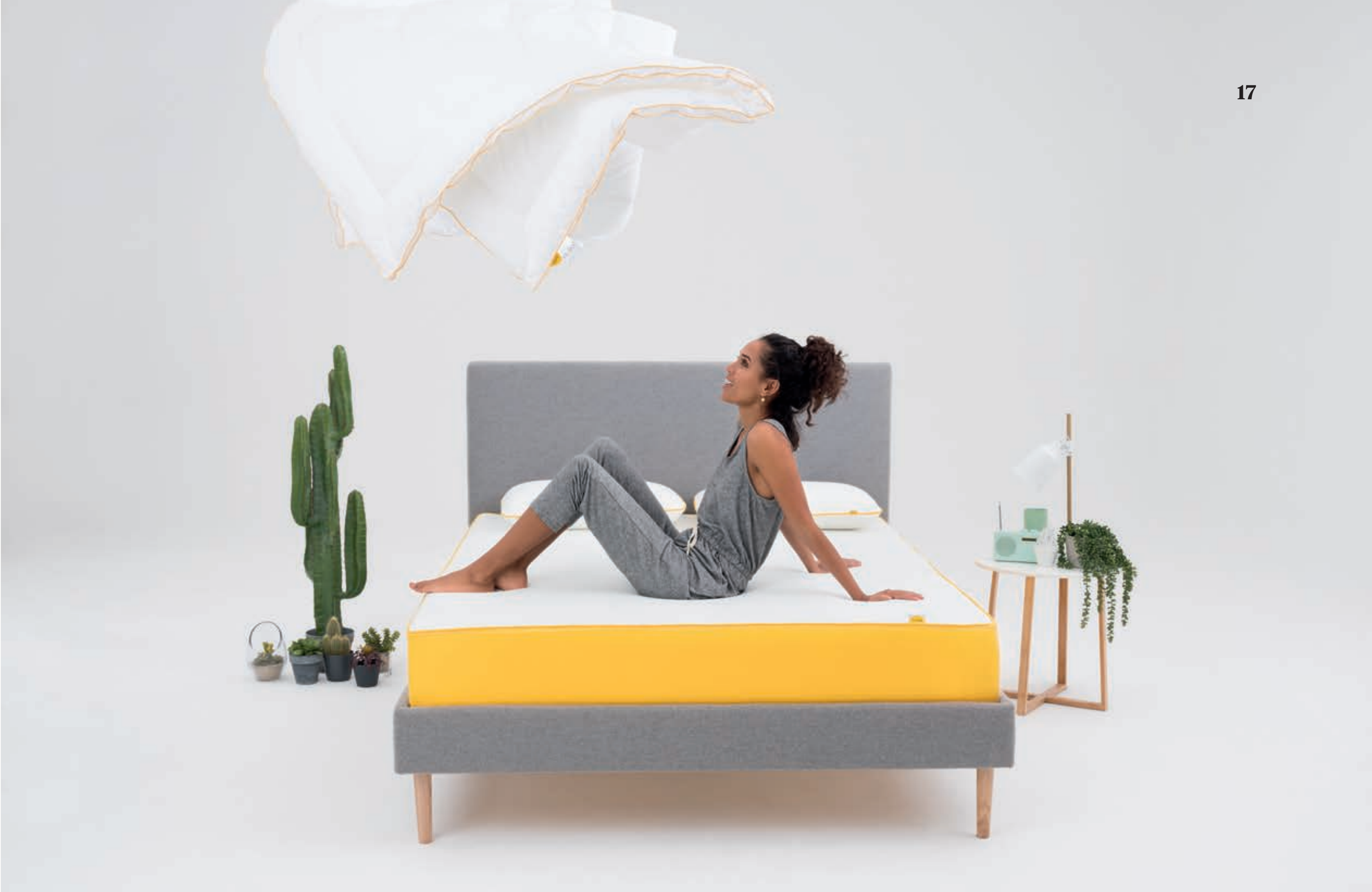
Product return rates

eve website conversion rate[2]

Net Promoter Score[2]

Non-mattress revenue growth[2]

Notes
1. Definitions of Financial and Operational KPIs, see page 18
2. These financial and operational KPIs are monitored by the Group in 2018 which were not monitored in 2017.



The results of the KPIs are set out below. Financial KPIs focus on both Group and Core Markets results whilst the operational KPIs focus on measures tracked in the Core Markets of UK&I and France. Whilst lower than original expectations (due to the reasons set out in the Strategic Report), both financial and operational KPIs show broadly positive trends against 2017:

Group and Core Markets Financial KPIs

- Group revenue increased by 25% to £34.8m (2017: £27.7m);
- Core Markets revenue increased by 35% to £29.4m (2017: £21.7m);
- Improvement in Group marketing efficiency of 510bps to 56.8% (2017: 61.9%);
- Improvement in Core Markets marketing efficiency of 360bps to 54.3% (2017: 57.9%);
- Group underlying EBITDA loss: £19.2m (2017: £15.1m loss).

Core Markets Operational KPIs

- Increase in non-mattress Core Markets sales as a proportion of total sales by 500bps to 19% (2017: 14%);
- Unprompted UK brand awareness: 560bps year-on-year increase in unprompted UK brand awareness (November 2018: 11.2%; November 2017: 6.6%);
- 120bps year-on-year improvement in the returns rate to 9.3% (2017: 10.5%);
- 33bps year-on-year improvement in the conversion rate;
- Net promoter score of 58 in UK and 69 in France (2017: 56 in UK and 61 in France).

strategic report

Glossary

Definitions of Financial and Operational KPIs:

Overall revenue growth - % change in value of reported revenue for the specified segment of the latest period vs the previous period

Marketing efficiency - total reported marketing cost divided by the reported revenue for the specified segment

Underlying EBITDA - earnings before interest, tax, depreciation and amortisation, share-based payment charges (2017 and 2018), IPO-related expenditure (2017 only) and staff and country exit costs (2018 only). Underlying EBITDA reflects what management believe to demonstrate the underlying performance of the business in a given year.

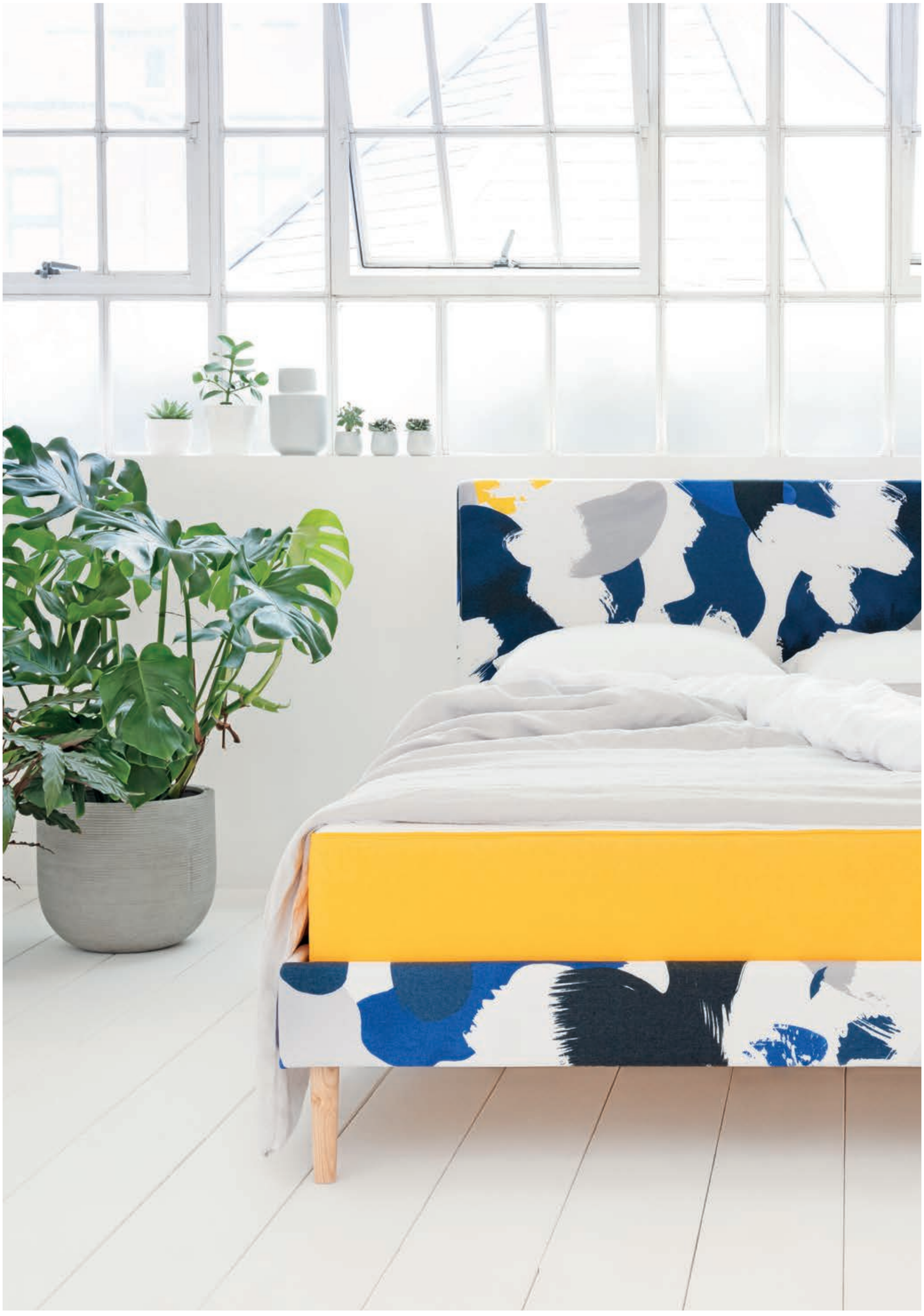
Non-mattress sales as a proportion of total sales - % change in value of reported sales attributable to non-mattress products for the specified segment of the last period vs the previous period. The Group track this Operational KPI in addition to the Financial KPI of overall revenue growth as returns and deferrals are not tracked in isolation for non-mattress sales. Total sales represents all sales after discounts and VAT and before deferred revenue, refunds processed and the refunds provision. Non-mattress sales represents the value of sales from non-mattress products.

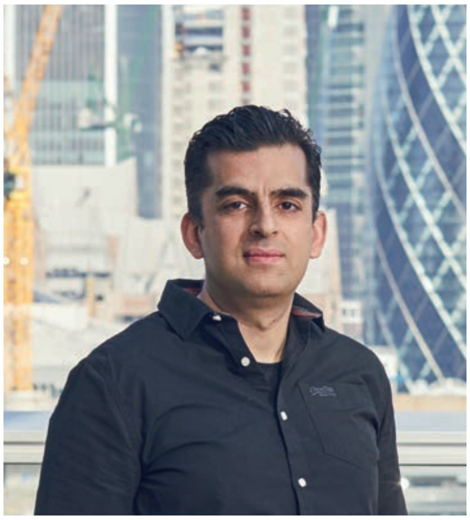
UK Brand awareness - when asked question "What mattress brands can you think of?" the % of total respondents that answer eve (externally assessed using industry polling agencies)

Product return rates - return rate % is calculated by dividing the total value of sales returns by the value of net sales of goods including freight (all excluding VAT).

eve website conversion rate - the percentage of website traffic in a specific period that complete a purchase. Calculated by dividing the number of completed sales orders divided by the total website traffic. This figure is compared on a bps movement between periods

Net promoter score - calculated based on responses to a single question: "How likely is it that you would recommend our company/product/service to a friend or colleague?" The scoring for this answer is based on a 0-10 scale and KPI is based on % of those that responded with score 9-10 minus the number of those responding 0-6. NPS scores presented are December 2017 and 2018 results.





strategic report

financial review

"Group revenue increased by 25% from £27.7m in 2017 to £34.8m in 2018 and revenue from the core markets of the UK&I and France grew by 35% to £29.4m from £21.7m in 2017."

Abid Ismail

Group financial performance

£m	2018	2017	Movement
Revenue	**34.8**	**27.7**	**+25%**
Gross profit	**18.4**	**16.0**	**+15%**
Distribution	(4.1)	(3.4)	(18%)
Profit after distribution	**14.3**	**12.6**	**+14%**
Payment fees[1]	(0.7)	(0.7)	(5%)
Marketing[1]	(19.8)	(17.2)	(15%)
Loss after distribution, payment fees and marketing	**(6.2)**	**(5.3)**	**(16%)**
Wages & Salaries (excluding share-based payment charges)[1]	(5.4)	(4.5)	(20%)
Other administrative expenses[1]	(8.5)	(5.3)	(59%)
Share-based payment charges	(0.3)	(1.8)	+83%
Loss before IPO-related expenditure	**(20.3)**	**(16.9)**	**(21%)**
IPO Related Expenditure	-	(2.1)	n/a
Net finance income	0.0	0.0	+79%
Loss before tax	**(20.3)**	**(19.0)**	**(7%)**
Taxation	0.2	-	n/a
Loss after tax	**(20.1)**	**(19.0)**	**(6%)**
Reconciliation to underlying EBITDA:			
Taxation	(0.2)	-	
Net finance income	(0.0)	(0.0)	
IPO-related expenditure	-	2.1	
Share-based payment charge	0.3	1.8	
Staff and country exit costs	0.8	-	
Depreciation and amortisation	0.1	0.0	
Underlying EBITDA	**(19.2)**	**(15.1)**	**(27%)**

[1] Administrative expenses per the Consolidated Statement of Profit and Loss and Other Comprehensive Income include payment fees, marketing, wages & salaries (excluding share-based payment charges) and other administrative expenses.
Financial data has been rounded for presentation purposes. As a result of this rounding, totals, comparatives and calculations presented in this document may vary slightly from the arithmetic totals or calculations using such data.

Group financial performance as a % of revenue

% of Revenue	2018	2017	Movement
Gross Profit	52.8%	57.7%	(490bps)
Distribution	(11.6%)	(12.4%)	+80bps
Profit after distribution	41.1%	45.3%	(420bps)
Marketing	(56.8%)	(61.9%)	+510bps
Administrative expenses[1] excluding marketing	(41.9%)	(37.9%)	(400bps)
Administrative expenses[1] excluding marketing and one-off costs	(39.7%)	(37.9%)	(180bps)

UK&I financial performance

£m	2018	2017	Movement
Revenue	22.5	16.1	+40%
Gross Profit	11.8	9.6	+23%
Distribution	(1.7)	(1.4)	(20%)
Profit after distribution	10.1	8.2	+24%
Payment fees	(0.4)	(0.4)	(6%)
Marketing	(10.5)	(8.9)	(18%)
Loss after distribution, payment fees and marketing (before overhead allocation)	**(0.8)**	**(1.1)**	**+29%**

France financial performance

£m	2018	2017	Movement
Revenue	6.8	5.5	+23%
Gross Profit	3.7	3.0	+20%
Distribution	(1.2)	(0.8)	(49%)
Profit after distribution	2.5	2.2	+10%
Payment fees	(0.1)	(0.1)	(14%)
Marketing	(5.4)	(3.7)	(48%)
Loss after distribution, payment fees and marketing (before overhead allocation)	**(3.1)**	**(1.6)**	**(101%)**

Other financial performance

£m	2018	2017	Movement
Revenue	5.5	6.1	(10%)
Gross Profit	2.9	3.4	(14%)
Distribution	(1.2)	(1.2)	+5%
Profit after distribution	1.7	2.2	(19%)
Payment fees	(0.2)	(0.2)	+4%
Marketing	(3.8)	(4.6)	+17%
Loss after distribution, payment fees and marketing (before overhead allocation)	**(2.3)**	**(2.7)**	**+15%**

revenue

Group revenue increased by 25% to £34.8m in 2018 (2017: £27.7m). Direct to consumer remains the dominant revenue channel. However, Group revenues from omni-channel did grow strongly, representing 22% of revenue in 2018 (2017: 14%), increasing 97% to £7.8m in 2018 (2017: £4.0m). As a result of investment in marketing and product expansion, revenue from the Core Markets of the UK&I and France combined grew by 35% to £29.4m (2017: £21.7m) with UK&I revenues growing 40% and France growing 23% respectively.

gross margins

Group gross margins remained strong however they have been negatively impacted by both product mix (increasing non-mattress revenues) and channel mix (increasing omni-channel revenues). As a result, Group gross margin reduced by 490bps to 52.8% in 2018 (2017: 57.7%). Core Markets gross margin (UK&I and France) reduced by 550bps to 52.7% in 2018 (2017: 58.2%).

distribution costs

Distribution costs as a percentage of revenue reduced by 80bps to 11.6% in 2018 (2017: 12.4%), reflecting the exit from European countries and increased share of revenue from retail, which typically has lower distribution costs as shipment is often in bulk.

marketing investment

Effective investment in marketing is an important driver of growth in the business. In 2018 investment in Group marketing increased by 15% to £19.8m (2017: £17.2m). Marketing investment in the Core Markets increased by 27% to £15.9m (2017: £12.6m). The efficiency of marketing investment is closely monitored and is an important KPI for the business. In 2018 Core Markets marketing efficiency, defined as marketing costs as a percentage of revenues, improved by 360bps to 54.3% (2017: 57.9%). In the UK&I marketing efficiency improved by 840bps to 46.6% (2017: 55.0%). In France, which is at an earlier stage of development than the UK, marketing efficiency reduced by 1330bps to 79.6% (2017: 66.3%).

administrative expenses

(excluding marketing)

Wages & Salaries (excluding share-based payment charges) remain the largest component of administrative expenses and increased 20% to £5.4m (2017: £4.5m) and making up 36.8% of administrative expenses excluding marketing (2017: 42.6%). Other administrative expenses included £0.8m of staff and country exit costs related to the exit from non-Core Markets in the second half of 2018.

underlying EBITDA loss

(earnings before interest, tax, depreciation, amortisation, share-based payments (2017 & 2018), IPO-related expenditure in 2017, staff and country exit costs in 2018)

The Directors consider that they are able to monitor Group financial performance via underlying EBITDA by removing share-based payment charges, IPO-related expenditure and staff and country exit costs from EBITDA on the basis that these items do not occur evenly year on year.

The underlying Group EBITDA loss increased by £4.1m to £19.2m in 2018 (2017: £15.1m loss). The increased loss reflects under performance in the first half of the year, where Group losses increased year-on-year by £6.9m to £11.9m. In the second half of the year underlying EBITDA losses reduced reflecting the decision to focus on the Core Markets of the UK&I and France and greater focus on efficiency of marketing spend.

France is at an earlier stage of development for eve compared to UK&I. Its revenue grew 23% to £6.8m (2017: £5.5m) driven mainly by higher marketing spend which resulted in a loss after distribution, payment fees and marketing (before overhead allocation) of £3.1m (2017: £1.6m loss).

UK&I performance for the year, whilst below original year on year expectations, was positive with revenue growth of 40% to £22.5m (2017: £16.1m) resulted in a loss after distribution, payment fees and marketing (before overhead allocation) of £0.8m (2017: £1.1m loss).

share-based payment

In accordance with IFRS, a share-based payment charge for 2018 has been calculated and charged to the income statement. The fair value of options granted is recognised as an expense over the vesting period with a corresponding credit being recognised in equity. The charge for 2018 was £0.3m (2017: £1.8m).

loss after tax

The loss after tax increased to £20.1m (2017: £19.0m loss) and underlying EBITDA increased to a loss of £19.2m (2017: £15.1m loss).

capital expenditure

Due to the Group's outsourced business model, capital expenditure requirements remain low. The main area of capital expenditure in 2018 related to development cost in respect of the infrastructure for the website platform and ERP systems. Total capital expenditure in 2018 was £0.4m (2017: £0.4m).

cash position

The Group had net cash of £6.0m at the year end (2017: £26.9m). Since the year end the Group has raised an additional £11.7m (net of expenses) from investors through a placing of new shares and secured £0.9m in future advertising with Channel 4, which will be satisfied through the issuance of new shares when utilised.

Abid Ismail
Chief Financial Officer
11 March 2019

strategic report

principal risks and uncertainties

Risk management is an important part of the management process for the Group. Regular reviews are undertaken to assess the nature of risks faced, the magnitude of the risk presented to business performance and the manner in which the risk may be mitigated. Where controls are in place, their adequacy is regularly monitored.

The risks considered to be particularly important at the current time are set out below.

marketing

Marketing is an important investment area for the Group and there is a risk that this expenditure may not result in the targeted increase in sales or brand awareness levels.

eve constantly monitors and analyses financial performance and key business metrics to ensure up to date and accurate forecasting. The Group also supplements its in-house marketing expertise with third party media and marketing agencies to monitor and advise on the effective implementation and roll out of marketing and advertising campaigns to meet targeted KPIs.

product

The Group is responsible for the design of eve products and could face exposure to product liability claims or claims against health and safety procedures or practices in different territories. There could also be high return rates owing to the 100 night trial offered on the eve mattress.

The Group has a robust new product and supplier onboarding process to ensure new products and suppliers are of the highest standards. The Group also retains insurance brokers to review and analyse insurance coverage to ensure sufficient insurance coverage for product liability and associated losses. In addition, return rates is a KPI which is monitored closely.

The Group is subject to fluctuations in the cost of materials which may adversely impact on the Group's profit margins.

The Group primarily manufactures its EU mattress in the EU and its UK mattress in the UK for its main product (the eve original mattress), creating a hedge against currency movement for its key products. For other products and markets the Group looks to agree prices for a period of time where possible to provide a degree of certainty on currency fluctuations.

operations

As the Group is growing rapidly, there is a reliance on outsourced partners, there is a risk that the business may be unable to cope with rapid demand or disruption occurring with its manufacturing or logistics partners.

The Group has a close working relationship with its outsourced partners and regularly reviews forecasts to ensure capacity constraints are managed. In addition, the Group maintains a list of alternative suppliers who can be onboarded or switched to very quickly, reducing the risk of relying on any specific supplier.

competition

The Group operates in the highly competitive mattress and pillow industries and may not be able to grow, or maintain, its existing marketing share.

The Group constantly reviews and analyses its performance against its business plan and against market competitors. The Group has both internal talent and external advisors who can advise on and respond to any changes in the competitive

brexit

As with all UK companies involved in intra-community cross border trade the impact of Brexit is a potential risk for the Group.

The board of directors and senior management regularly review developments surrounding Brexit throughout the organisation and in addition to this the operations team has a dedicated task force focused on Brexit planning within the supply and logistics chain. The Group has a natural Brexit hedge with its UK and French companies and its main product, the eve original mattress, is manufactured in both the UK and the EU providing a hedge for its most significant product.

As with most UK based technology companies, eve employs a significant non-UK workforce in the UK. Approximately 44% of the Group's workforce in London are non-British employees of which approximately 80% of these individuals are EU nationals. Therefore the outcome of Brexit with regards to freedom of movement will have an effect on our workforce planning and recruitment.

At present the precise details of Brexit and how it relates to freedom of movement between the EU and UK are unknown but the Group continuously monitors the situation to ensure it is as prepared as possible for any outcome. The Group is already registered as a sponsoring entity with the relevant UK authorities and also has a French subsidiary, which combined with the expected transitional period provides the foundations for mitigating the immediate effect of Brexit on the Group with this regards.

Approved and signed on behalf of the board

Abid Ismail
Chief Financial Officer
11 March 2019

governance report

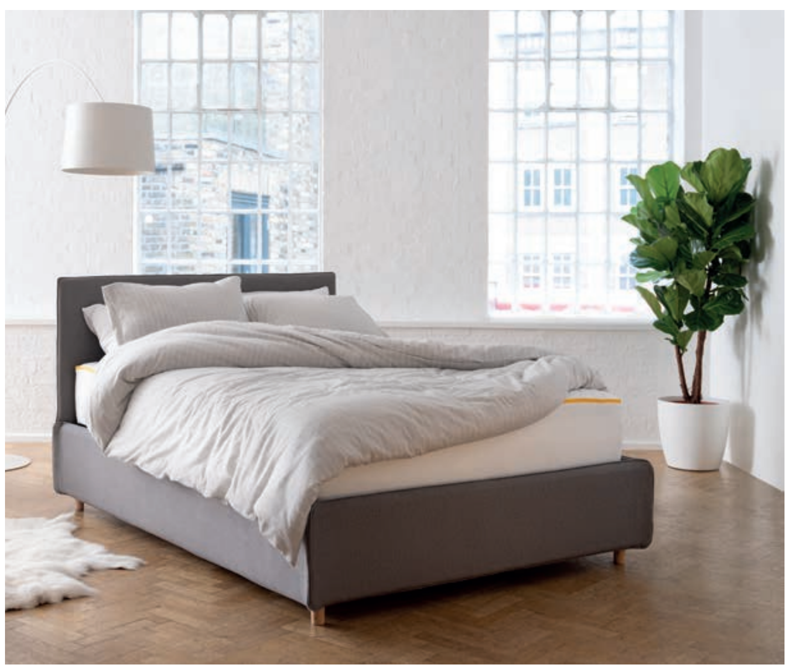
Directors' Governance Statement

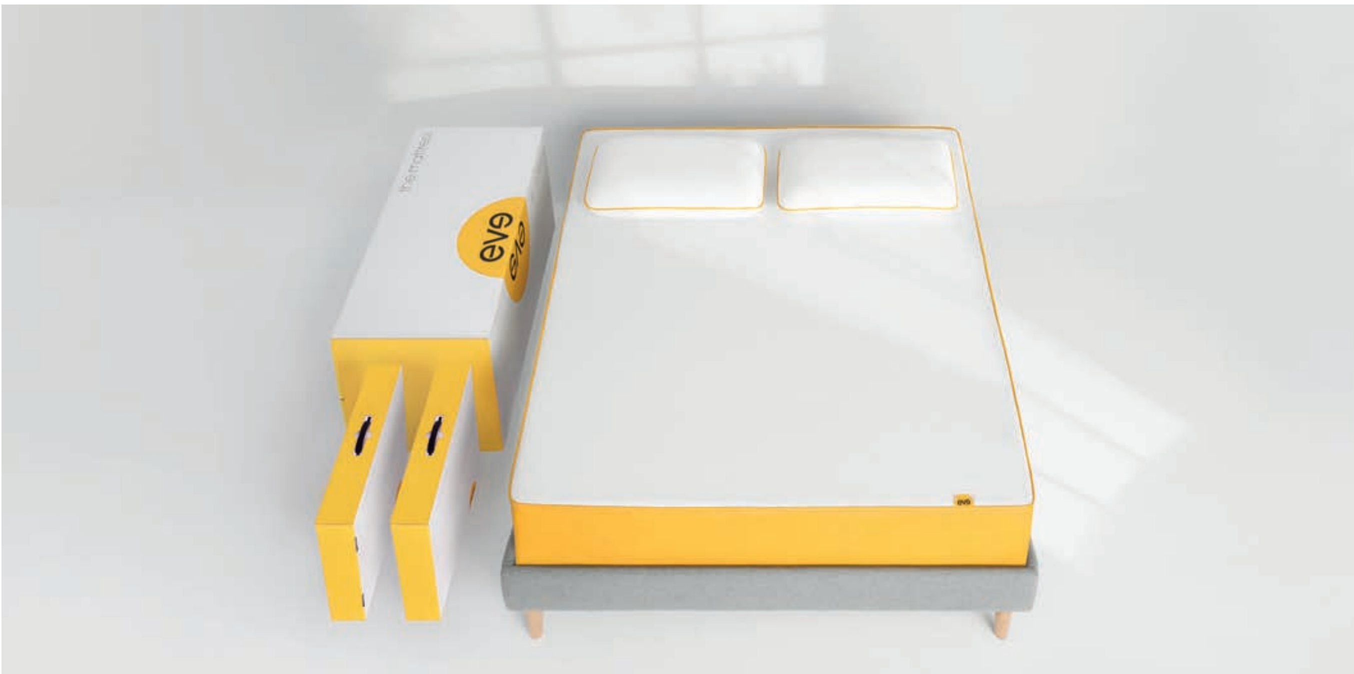
"As a Board, we are pleased with the progress we have made on a range of corporate governance actions in 2018,"

Dear Shareholders,

The Board recognises the importance of achieving the highest possible standards of corporate governance. Our commitment to good corporate governance is based on the recognition that good governance supports Board and management discussion on identifying and facilitating the drivers of long-term growth; for our Group it allows us to take into account the full range of our stakeholders, including investors, employees, customers, and those in our supply chain; and facilitates constructive discussions between the Board and management on the Group's strategic and operational priorities, and the ways in which these priorities are being delivered upon, and on how we build upon our unique corporate culture.

As Chairman, my primary roles are to run the business of the Board, ensuring appropriate strategic focus and direction in the Board's discussions, and to facilitate relationships and engagement with shareholders. I am responsible for ensuring that the Group is appropriately governed and that, as a Group, we embrace not just the principles of good corporate governance but also the values that underpin those principles.





As a Board, we are pleased with the progress we have made on a range of corporate governance actions in 2018, of which I would particularly like to highlight the following:

- We have successfully supported the onboarding of James Sturrock as the Group's new Chief Executive Officer, and Nikki Crumpton as the Board's new Senior Independent Director;

- We have carefully reviewed the Group's strategic direction. While there have been a number of difficult strategic decisions to make in 2018, we are as a Board truly excited and optimistic about the growth opportunities for our business in 2019 and beyond.

- We have received and challenged a number of detailed updates on a number of our core operational functions, including product development and marketing functions.

The Board decided in 2018 to formally adopt the QCA Code (the "Code"), and reported in September 2018 on the Group's compliance with the Code. The Board was briefed on the revisions made to the Code for the 2019 reporting year, as well as additional legislation introduced by the Government. We remain fully committed to the principles and spirit of the Code, and disclose both in our compliance statement, and in this governance statement, on how we have applied the Code's principles.

Approved and signed on behalf of the board

Paul Pindar
Chairman
11 March 2019

governance report

board of directors

Paul Pindar
Chairman of the Board

appointed: November 2016

experience

Paul joined the eve Board in November 2016. Prior to this, Paul spent 26 years at Capita Plc, retiring in February 2014. Paul was one of the UK's longest serving CEO's of a FTSE100 company. During his tenure, the market value of Capita grew to £7.5bn and employee numbers grew from 33 to 62,000. Paul is Chairman of and was a founder investor in online estate agent Purplebricks which originally launched in April 2014 and is now AIM-listed on the London Stock Exchange. Paul is also Chairman of Literacy Capital Plc, an investment company focussed on investing in and supporting early stage and small companies whilst also providing charitable funding in order to materially improve child literacy in the UK.

committee membership:

Audit Committee (Chair)
Nomination Committee
Remuneration Committee (Chair)

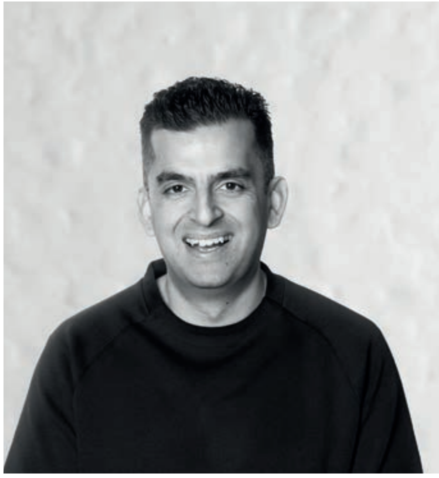
James Sturrock
Chief Executive Officer

appointed: September 2018

experience

James joined eve in September 2018 having previously been Managing Director of Moonpig, the UK's leading online greetings card, flower and gift company, where he delivered four consecutive years of double-digit revenue and EBITDA growth, expanded the product offering, and led the successful rebranding of the business in 2017. Prior to Moonpig, James was part of Direct Line Group and formerly Direct Line Insurance for more than seven years where he held a number of senior divisional and marketing roles across the Group before becoming General Manager of Commercial Direct in 2012.

Committee membership
None



Abid Ismail
Chief Financial Officer

appointed: November 2016

experience
Abid joined eve in 2016 from Capita Plc, having been Chief Financial Officer and then Chief Executive Officer of AXELOS Ltd — a joint venture between Capita Plc and the UK government. Prior to this Abid held senior positions within Capita group as well as Ernst & Young's M&A team. Abid is a Chartered Accountant.

committee membership:
None

Nikki Crumpton
Senior Independent Non-Executive Director

appointed: September 2018

experience
Nikki joined eve in September 2018. Nikki is founder of brand and communications consultancy The Active Strategist and has previously held senior roles within international agencies including McCann Worldgroup where she was Regional Planning Director EMEA, and as Chief Strategy Officer for McCann London for seven years.

committee membership:
Audit Committee
Nomination Committee
Remuneration Committee

Thomas Enraght-Moony
Independent Non-Executive Director

appointed: April 2017

experience
Tom joined Eve in April 2017. Tom is the Chief Customer Officer at McArthurGlen, Europe's leading owner & operator of Designer Outlet Malls. Prior to McArthurGlen Tom spent over 15 years of experience leading brand transformation and growth for tech-enabled consumer businesses including Leisure Pass Group, Match.com, E*TRADE, AT&T Wireless and Clearwire. He holds an undergraduate degree from The University of Glasgow and an MBA from INSEAD in France.

committee membership:
Audit Committee
Nomination Committee (Chair)
Remuneration Committee

governance report

corporate governance report

+

The Board is committed to achieving high standards of corporate governance, integrity and business ethics, which it believes in turn serve to drive growth over the long term. Under the AIM Rules for Companies, the Company has decided to apply the QCA Corporate Governance Code for Small and Mid-Size Quoted Companies (the "Code") and provides details to shareholders, both through this Annual Report and in an annually updated compliance statement available on the Company's website, on eve's compliance with the Code.

the Board and its committees

The Board has adopted a Board Governance document, which sets out Board membership and processes alongside powers reserved for the Board. This document was last reviewed by the Board in February 2019.

The Board is collectively responsible to the shareholders for the overall direction and control of the company and delegates the day to day management of the business to the executive directors and senior management.

The Board also delegates certain matters to its Board committees so that it can operate efficiently and give the right level of attention and consideration to relevant matters. The composition, responsibilities and activities of each of the Board Committees are set out on pages 30 to 41. The terms of reference of each committee are available from our website.

board composition

The Board of Directors hold a variety of skills and experience wihtin various backgrounds including finance, government services, entertainment, retail and consumber services.

The successful delivery of our strategy depends upon attracting and retaining the right talent. This starts with having a high-quality Board. Balance is an important requirement for the composition of the Board, not only in terms of the number of Executive and Non-executive Directors, but also in terms of skill, knowledge and expertise each Director brings.

The Board comprises a non-executive chairman, two executive directors and two other independent non-executive directors. A short biography of each of the directors in office at the year end is set out on pages 28 and 29.

Nikki Crumpton and Thomas Enraght-Moony are considered by the Board to be independent. The Board are of the opinion that both act in an independent and objective manner and are free from any relationship that could affect their judgement. On appointment, our Non-executive Directors are provided with a letter of appointment that sets out the terms and conditions of their directorship, including the fees payable and the expected time commitment. Each Non-

Executive Director is expected to commit approximately 20 days per year to the role.

Notwithstanding any cross-directorships, the Board is satisfied that it has a suitable balance between independence (of both character and judgement) on the one hand, and knowledge of the Company on the other, to enable it to discharge its duties and responsibilities effectively.

There are effective procedures in place to monitor and deal with conflicts of interest, with Directors' other current commitments being disclosed at each and every Board meeting. As such, the Board is aware of the other commitments and interests of its directors, and changes to these commitments and interests are reported to and, where appropriate, agreed with the rest of the Board.

board and committee meetings

The table below sets out the Board and Committee attendance for 2018. Attendance is shown as the number of meetings attended out of the total number of meetings possible for the individual Director during the year.

attendance at Board and Commitee meetings since January

	Board	Audit Committee	Remuneration Committee	Nomination Committee
Paul Pindar	11 of 11	3 of 3	2 of 2	1 of 1
James Sturrock (appointed 10 September 2018)	3 of 3	-	-	-
Abid Ismail	10 of 11	-	-	-
Thomas Enraght-Moony	9 of 11	3 of 3	2 of 2	1 of 1
Nikki Crumpton (appointed 3 September 2018)	3 of 3	1 of 2	0 of 1	- *
Jas Bagniewski (resigned with effect from 29 June 2018)	5 of 6	-	-	-
Peter Hepworth (resigned with effect from 31 August 2018)	7 of 8	1 of 1	1 of 1	1 of 1

* Nikki Crumpton joined the Nomination Committee after the only meeting of 2018.

If any Directors are unable to attend a meeting, they are encouraged to communicate their opinions and comments on the matters to be considered via the Chairman of the Board or the relevant committee chairman.

board and committee effectiveness

The Board continually strives to improve its effectiveness and recognises that an annual evaluation process is an important tool in reaching that goal. The Directors are aware of the importance to monitor performance through Board evaluation and that feedback from these evaluations leads to improving Board effectiveness.

We delayed the undertaking of our first evaluation due to the introduction of our new Directors appointed in 2018 to allow them to gain a comprehensive understanding of the Company, of our governance structures and processes.

Over the next six months, we intend to review the performance of the Board and its committees by conducting an evaluation via detailed questionnaire to assess the strengths and independence of the Chairman and the Board along with the performance of the committees. This questionnaire will be completed by all Directors and the results of this evaluation will be discussed by the Board, the Committees and the Chairman in order to seek improvements and reflect on performance as a whole.

internal controls and risk management

The Group has a comprehensive system of internal controls in place, designed to ensure that risks are mitigated and that the Group's objectives are attained. The Board recognises its responsibility to present a fair, balanced and understandable assessment of the Group's position and prospects. It is accountable for reviewing and approving the effectiveness of internal controls operated by the Group, including financial, operational and compliance controls, and risk management. The Board recognises its responsibility in respect of the Group's risk management process and system of internal control and oversees the activities of the Group's external auditors and the Group's risk management function (supported by the Audit Committee).

A review of the Group's risk management approach is further discussed in the Strategic Report on pages 24 and 25. For detail on the management and mitigation of each principal risk see pages 24 and 25.

our corporate culture

We believe that our corporate culture serves as one of our key competitive advantages. We encourage all of our employees at all levels of the Group to take responsibility for their work and to actively contribute toward the development and delivery of our strategy.

We promote a culture within the Group of ethical values and behaviours, and we also have a number of due diligence processes in place to ensure that all suppliers meet our standards and our values. We have internal policies covering a range of ethical behaviours, such as an anti-bribery and anti-corruption policy and an anti-money laundering policy, which serve to promote and preserve the right corporate behaviours.

As part of our induction process, new employees receive training on all corporate policies and the expectations of the Company when it comes to ethical values and behaviours and this is refreshed on a regular basis for all employees.

We have an active programme of employee engagement, including regular employee engagement surveys, throughout the year. Such engagement shapes both the way in which we develop our products and deliver services. We also have a whistleblowing policy and hotline available for all employees.

In 2018, there were no instances of the anti-bribery and anti-corruption policy or whistleblowing policy being invoked.

In respect of our forthcoming priorities for 2019, the Board will be actively engaging with the ongoing development of our culture and considering the development of metrics for measuring and monitoring culture and employee engagement.

relations with shareholders

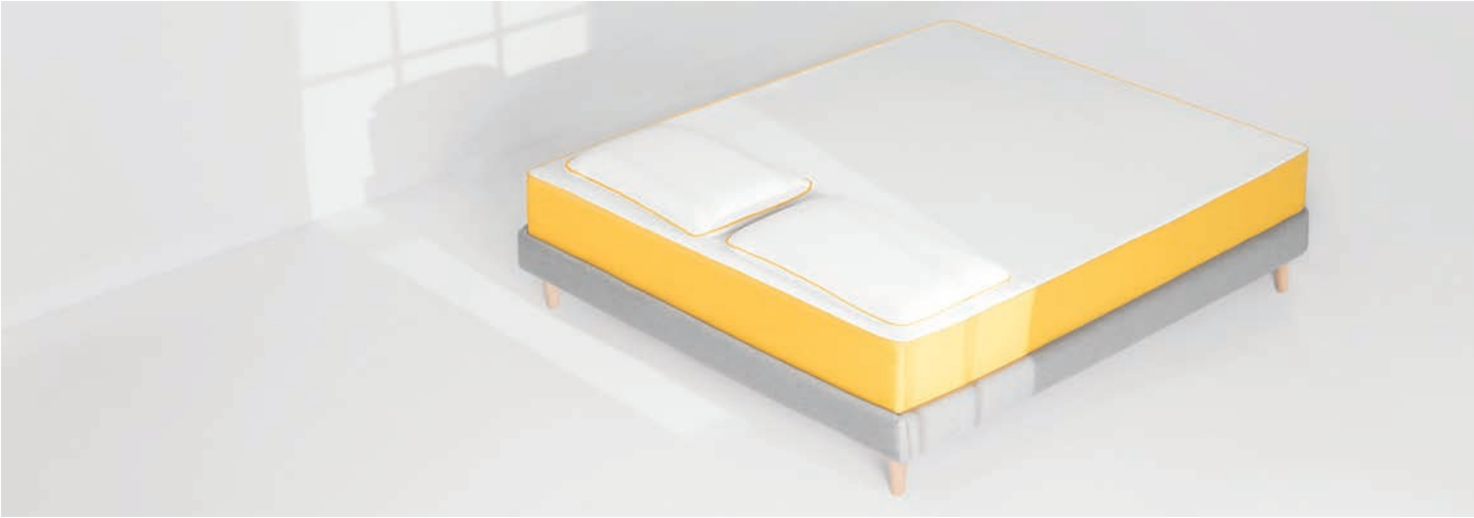
We are committed to communicating openly with its shareholders to ensure that its strategy and performance are clearly understood. We communicate with shareholders through the Annual Report and Accounts, full-year and half-year announcements, trading updates and the annual general meeting (AGM); and we encourage shareholders' participation in face-to-face meetings. A range of corporate information (including all announcements and presentations) is also available to shareholders, investors and the public on our corporate website, at https://investor.evesleep.co.uk

Our engagement with stakeholders

The Board places due weight on stakeholder awareness and engagement. It assesses stakeholders according to the definition of stakeholders set out in the Global Reporting Initiative (Standard 101 paragraph 1.1) as organisations or individuals who have "a reasonable expectation of being significantly affected" by the Group's activities or products.

In addition to our shareholders, the Board has identified the Group's other major stakeholders, and approved a strategy for engaging with these groups. as follows:

Stakeholder	Channel of engagement
Employees	• Quarterly performance reviews; • Weekly feedback exercises; • Exit interviews; • Mental health awareness and training and employee support; and • Continuing personal development plans.
Local communities	The Company has a range of initiatives including volunteer days for employees, support of relevant charities through selective partnerships and the regular review of additional ways it can provide support to the local community and relevant charitable organisations.
Key suppliers	Regular meetings and reviews with key contact within Company and senior management team.
Key partners	Regular meetings with partnership managers and continuous review of partnership generally.



governance report

audit committee report

committee composition

The Committee comprises Paul Pindar (Chair), Nikki Crumpton and Thomas Enraght-Moony.

committee responsibilities

The main responsibilities of the Audit Committee are:

- Monitoring the integrity of the financial statements;
- Reviewing the Company's internal control arrangements and risk management systems;
- Making recommendations to the Board as regards the appointment, re-appointment and removal of the Company's external auditor;
- Overseeing the relationship with the external auditor.

The Terms of Reference for the Audit Committee are available on our website: https://investor.evesleep.co.uk/corporate-governance#committee-composition.

These were last reviewed and approved by the Board on 18 December 2018.

objectivity and independence of the external audit process

It is the Committee's responsibility to monitor the performance, objectivity and independence of the Auditor and this is evaluated by the Committee each year. In evaluating their performance, the Committee examines five main criteria – robustness of the audit process, independence and objectivity, quality of delivery, quality of people and service, and value-added advice. Having carried out the review the Committee is satisfied with the Auditor's performance, objectivity and independence.

key activities in 2018

The main focus of the Committee in 2018 has been to review and recommend the reappointment of the Company's external auditor and approve the 2017 full year results. The Committee also assessed the Company's risk management system and the risk register and conducted an annual review of the Committee's Terms of Reference.

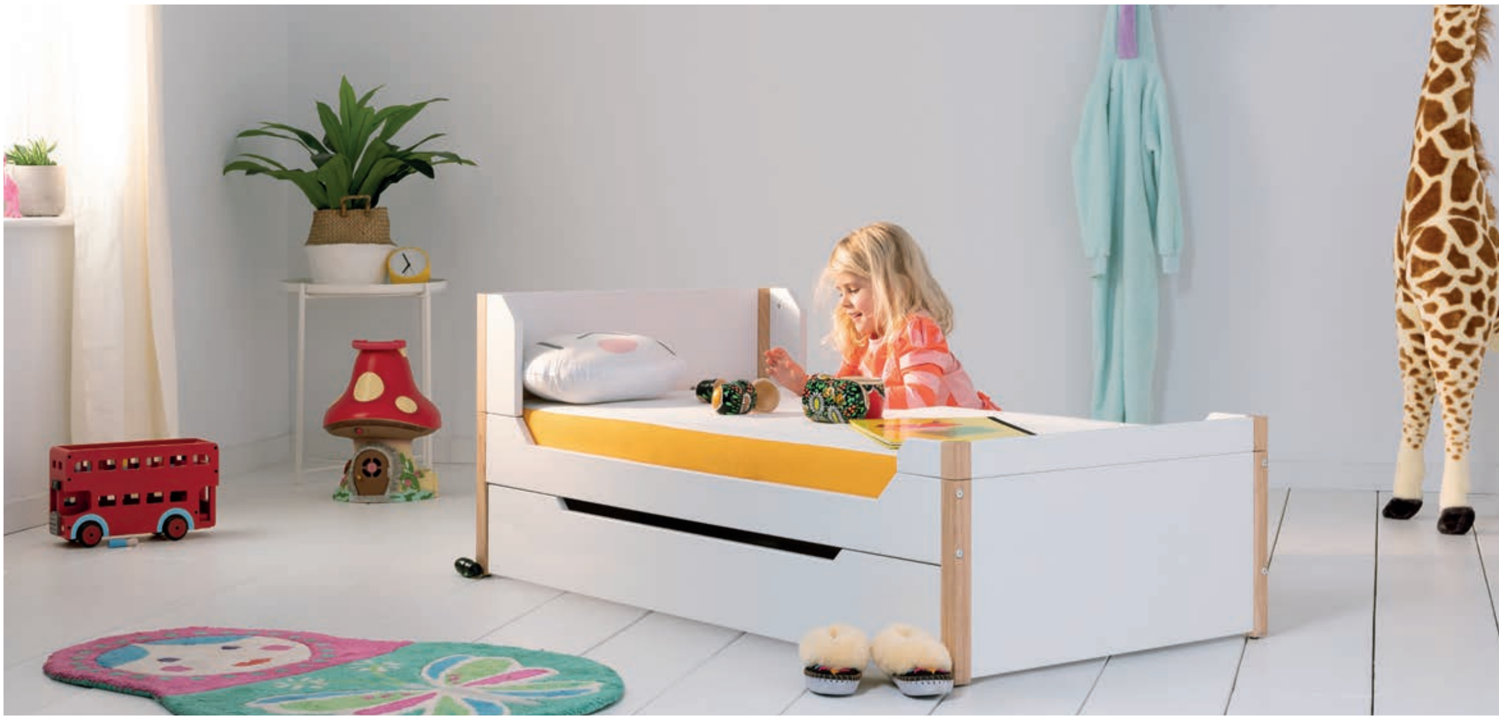
statement on going concern

Going Concern statement
We have also had careful regard over the year to changes to:

- the Group's principal risks and uncertainties, including those that will threaten our business model, future performance and solvency or liquidity, and the way in which those risks and uncertainties are managed; and
- the current financial and operational position of the Group, including future cash flows and capital allocation, allocated capital expenditure and funding requirements.

On that basis, the Committee's opinion continues to be that it remains appropriate to adopt the going concern basis in preparing the Group's financial statements.

KPMG LLP was appointed as our Group statutory auditor in 2015 ahead of our listing on AIM market, following a competitive tender process. The Group will be required to put the external audit contract out to tender no later than 2025.



significant issues considered in relation to the financial statements

The most significant issues the Committee considered in relation to the financial statements concerned are shown below:

Significant Risk	What	Actions taken
Revenue recognition	Fraud risk related to misstatement of revenues	• Engagement with KPMG as external auditors • Regular reports from management on risk management processes in place
Share based payment charges	Risk of error in valuation and vesting likelihood	• Engagement with KPMG as external auditors • Regular reports from management on risk management processes in place
Inventory valuation and existence	Risk of error in stock costing and provisioning	• Engagement with KPMG as external auditors • Regular reports from management on risk management processes in place
Management override of controls	Fraud risk related to unpredictable way management override of controls may occur	• Engagement with KPMG as external auditors • Regular reports from management on risk management processes in place

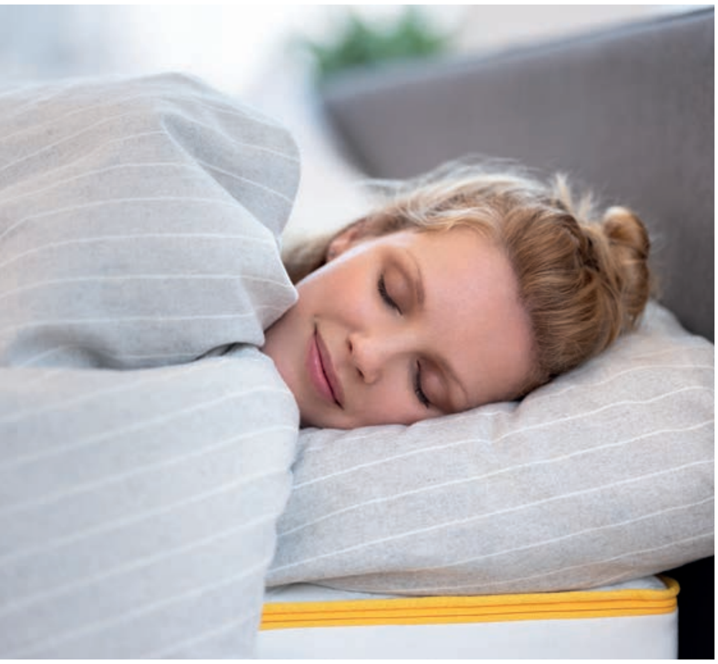
governance report

audit committee report (continued)

external audit effectiveness

We have an established framework for assessing the effectiveness of the external audit process. This includes:

- a review of the audit plan, including the materiality level set by the auditors and the process they have adopted to identify financial statement risks and key areas of audit focus;
- regular communications between the external auditor and both the Committee and management, including discussion of regular reports prepared by KPMG;
- regular discussions with KPMG (without management present) and management (without KPMG present) in order to discuss the external audit process; and
- a review of the final audit report, noting the conclusions reached by the auditors and the reasoning behind such conclusions.



We are confident that the evaluation process is effective, allowing for an objective assessment against the principal focus areas. After carefully considering the outcome of the above review, we concluded, in conjunction with management, and reported to the Board that in our opinion:

- the audit team was sound and reliable;
- the quality of the audit service provided was of a high standard;
- that KPMG continued to remain independent and objective;
- that KPMG was effectively able to challenge management when required; and
- that productive discussions were held with the Committee throughout the audit planning process.

External auditor independence

The Committee has undertaken a formal assessment of KPMG's independence, which included a review of: a report from KPMG describing their arrangements to identify, report and manage any conflicts of interest; their policies and procedures for maintaining independence and monitoring compliance with relevant requirements; and the value of non-audit services provided by KPMG.

KPMG have confirmed that they believe they remained independent throughout the year, within the meaning of the regulations on this matter and in accordance with their professional standards.

governance report

nomination committee

committee composition

The Committee comprises Thomas Enraght-Moony (Chair), Paul Pindar and Nikki Crumpton.

committee responsibilities

The main responsibilities of the Nomination Committee are:

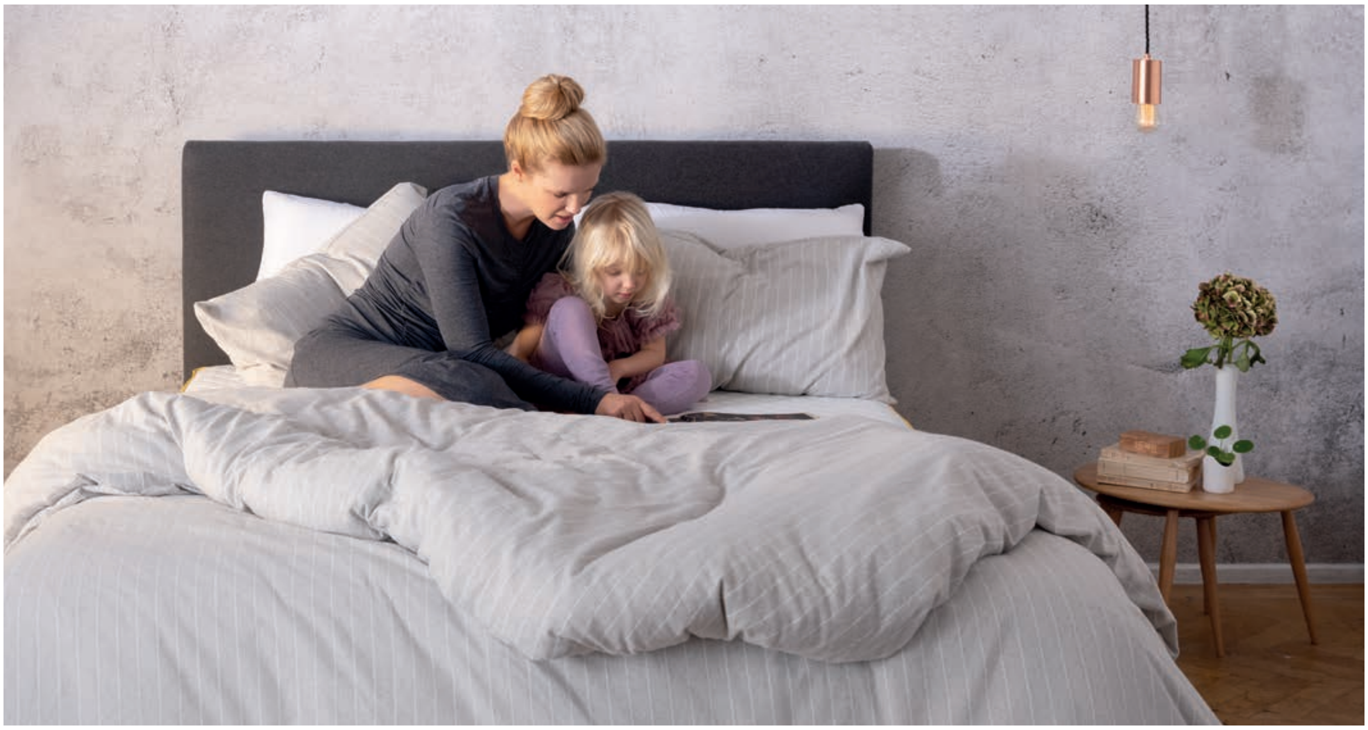
- Reviewing the size structure and composition of the Board;
- Considering succession plans for Directors and senior management ;
- Satisfying itself that plans are in place for orderly succession for appointments to the Board;
- Identifying and nominating to the Board candidates for Board vacancies.

The Terms of Reference for the Nomination Committee are available on our website: https://investor.evesleep.co.uk/corporate-governance#committee-composition

These were last reviewed and approved by the Board on 18 December 2018.

key activities in 2018

The main focus of the Committee in 2018 has been to review the size, structure and composition of the Board and Board Committees to ensure these remained appropriate. The Committee also conducted an annual review of the Committee Terms of Reference.



remuneration report

As Chairman of the Remuneration Committee, I am pleased to introduce the Directors' Remuneration Report.

Over the year, we have had to consider major remuneration issues, arising from wider strategic changes in our business, and the changes in our executive team:

- the total individual remuneration package of each executive including bonuses and benefits in cash or in kind, base salary, pension arrangements, incentive payments and share options or other share awards; and
- changes to the Group's share incentive scheme.

We continue to believe that the remuneration structure, both for those at senior management level and throughout the Group more widely, is structured in such a way that it supports our strategy and organisational culture and serves to incentivise and reward performance in the long-term.

As a Committee, we will continue to focus on ensuring that our pay structure is the right one for eve going forward and look forward to reporting on progress in our next Annual Report.

composition

The Remuneration Committee comprises three non-executive directors: Paul Pindar (Chair), Thomas Enraght-Moony and Nikki Crumpton.

Members of the management team are invited to attend meetings as appropriate, unless there is an actual or potential conflict of interest.

responsibilities

The role of the Committee is to assist the Board to fulfil its responsibility to shareholders to ensure that the remuneration policy and practices of the Group reward fairly and responsibly, with a clear link to corporate and individual performance, having regard to statutory and regulatory requirements.

The Terms of Reference for the Remuneration Committee are available on our website: https://investor.evesleep.co.uk/corporate-governance#committee-composition. These were last reviewed and approved by the Board on 18 December 2018.

key activities in 2018

The main focus of the Committee in 2018 has been to review proposals around Executive Directors' remuneration arrangements for 2019 and scrutinise management bonus scheme proposals. The Committee will continue to focus in 2019 on ensuring that executive remuneration and shareholder interests remain closely aligned.

remuneration policy

The Company's policy is that the remuneration package of the Executive Directors should be sufficiently competitive to attract, retain and motivate those directors to achieve the Company's objectives without making excessive payments. The Board determines the terms and conditions of the Non-Executive directors.

fixed remuneration elements

	Purpose	How it operates	Maximum opportunity	Performance-related framework
salary/fees	Reflects an individual's responsibilities, experience and performance in their role.	Reviewed annually, normally with effect from 1 January, with any changes taking effect from that date. Salaries are normally paid monthly. Decisions on salary levels are influenced by: responsibilities, abilities, experience and performance of an individual the performance of the individual in the period since the last review the Company's salary and pay structures and general workforce salary increases.	There is no prescribed maximum annual base salary or salary increase. The Committee is guided by the general increase for the broader employee population but has discretion to decide to award a lower or higher increase to Executive Directors.	The performance of the individual in the period since the last review is considered when their salary is being reviewed.
pension	To contribute financially post retirement.	Defined contribution arrangement. Only base salary is pensionable. Employees may opt out of the scheme.	The Company may contribute up to 1% of base salary. The Committee has discretion to amend the contribution level should market conditions change.	Not applicable.

variable remuneration elements

	Purpose	How it operates	Maximum opportunity	Performance-related framework
share plan	Supports the strategy and business plan by incentivising and retaining the eve senior management team in a way that is aligned both with the Company's long-term financial performance and with the interests of shareholders.	Awards of share options to certain employees, which normally vest after three years subject to the achievement of performance conditions.	Not applicable.	Not applicable.
other benefits	To support the personal health and wellbeing of employees. To reflect and support the Company's culture.	Benefits include private medical insurance and discount on eve products.	There is no overall maximum level of benefits provided to Executive Directors, and the level of some of these benefits is not pre-determined but may vary from year to year based on the overall cost to the Company.	Not applicable.

governance report

remuneration report (continued)

Directors' remuneration table

The remuneration of the Directors for the year to 31 December 2018 is set out in the table below.

Director	Appointed	Resigned	Salary / fees £		Pension £		Compensation for loss of office £	Total remuneration £	
			2018	2017	2018	2017	2018	2018	2017
Executive Directors									
James Sturrock	10 September 2018	N/A	54,615	-	269	-	-	54,884	-
Abid Ismail	2 November 2016	N/A	140,000	130,000	703	98	-	140,703	130,098
Jas Bagniewski	6 January 2015	29 June 2018	76,308	132,708	315	98	150,000	226,623	132,806
Non-Executive Directors									
Paul Pindar	21 November 2016	N/A	30,000	25,000	-	-	-	30,000	25,000
Nikki Crumpton	3 September 2018	N/A	10,000	-	160	-	-	10,160	-
Thomas Enraght-Moony	28 April 2017	N/A	30,000	20,115	-	-	-	30,000	20,115
Peter Hepworth	28 April 2017	31 August 2018	27,500	17,500	-	-	-	27,500	17,500

There were no bonuses, long term incentives or other income awarded to directors.
Details of directors interest in share plans is shown on the following page and details of the share-based payment charge attributable to directors is shown in note 6.
Private medical insurance was provided to James Sturrock, Abid Ismail and Jas Bagniewski.

Directors interest in share plans

The Directors who held office at 31 December 2018 had the following interests in the share plans of the Group.

Director	Date of Grant	As at 31 December 2018 (no. of options)	As at 31 December 2017 (no. of options)	Performance conditions	Exercise Price (pence)
James Sturrock (Executive Director)	n/a	-	-	-	N/A
Abid Ismail (Executive Director)	12 May 2017	389,843	389,843	Length of service	101.2p
Paul Pindar (Non-executive Director)	n/a	-	-	-	N/A
Nikki Crumpton (Non-executive Director)	n/a	-	-	-	N/A
Thomas Enraght-Moony (Non-executive Director)	12 May 2017	99,000	99,000	Length of service	101.2p
Jas Bagniewski (resigned) (former Executive Director)	12 May 2017	-	597,000	Length of service	101.2p
Peter Hepworth (resigned) (former Executive Director)	12 May 2017	-	99,000	Length of service	101.2p

No directors exercised share options during 2018 therefore no gain on option exercise is presented here nor in note 6 to the financial statements.

Directors shareholdings

The Directors who held office at 31 December 2018 had the following interests in the shares of the Group.

Director	Beneficially owned at 31 December 2018 (no. of shares)	Beneficially owned at 31 December 2017 (no. of shares)
James Sturrock (Executive Director)	52,750	-
Abid Ismail (Executive Director)	4,151,841	4,151,841
Paul Pindar (Non-executive Director)	6,527,126	6,287,927
Nikki Crumpton (Non-executive Director)	-	-
Thomas Enraght-Moony (Non-executive Director)	-	-
Jas Bagniewski (resigned) (former Executive Director)	8,441,668	9,341,668
Peter Hepworth (resigned) (former Executive Director)	-	-

governance report

statement of directors' responsibilities in respect of the annual report and the financial statements

The directors are responsible for preparing the Annual Report and the Group and parent Company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and parent Company financial statements for each financial year. Under the AIM Rules of the London Stock Exchange they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the EU (IFRSs as adopted by the EU) and applicable law and they have elected to prepare the parent Company financial statements on the same basis.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent Company and of their profit or loss for that period. In preparing each of the Group and parent Company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report and a Directors' Report that complies with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

governance report

directors’ report

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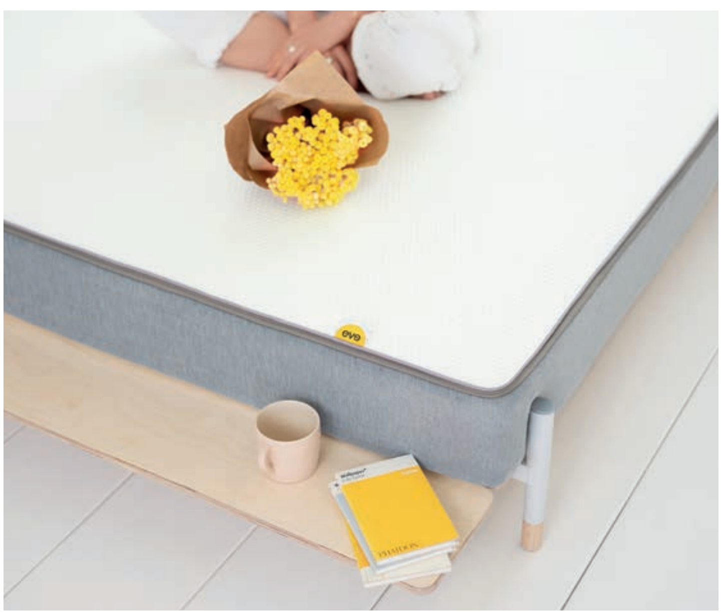
The Corporate Governance Report approved by the Board is provided on pages 26 to 33 and incorporated by reference into this Directors’ Report.

information contained elsewhere in this Annual Report

Information required to be included in this Directors’ Report can be found elsewhere in the Annual Report as indicated in the table below and is incorporated into this report by reference:

Information	Page(s)
future developments	15
going concern statement	56 - 57
risk management and principle risks	24 - 25
corporate governance statement	42
Information on the Group’s financial risk management objectives and policies, and its exposure to credit risk, liquidity risk, interest rate risk, foreign currency risk and financial instruments	74



significant events since the end of the financial year

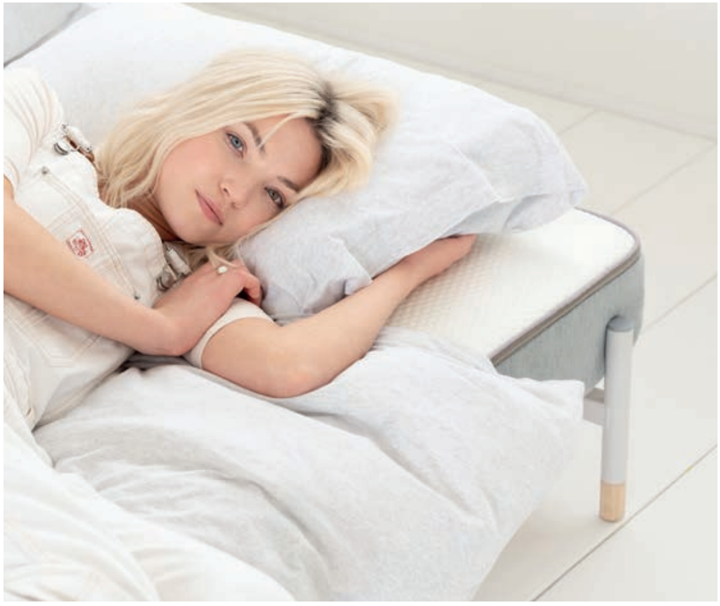
On 11 February 2019, the Company completed a placing of 120,317,323 new ordinary shares of 0.1 pence each (“Ordinary Shares”) in the share capital of the Company (the “Placing Shares”) at a price of 10 pence per Placing Share (the “Placing Price”) to raise approximately £11.7m net of expenses (the “Placing”) from existing and new investors.

In addition Channel Four, which provides advertising services to the Company and is an existing Shareholder, has agreed that £0.9 million of future advertising spend by the Company with Channel Four will, when payable, be satisfied by the issue of new Ordinary Shares at the Placing Price over a period of up to twenty four months from Admission.

presence outside of UK

the company has the following subsidiaries outside of the UK

	eve Sleep SASU	eve Sleep Inc
Principal place of business / registered office address	5 Rue Des Suisses, 75014, Paris	185 W. Broadway, Suite 101, PO Box 1150, Jackson, USA
Registered number	823397419 R.C.S Paris	EIN 47-4164566
Ownership 2018	100%	100%



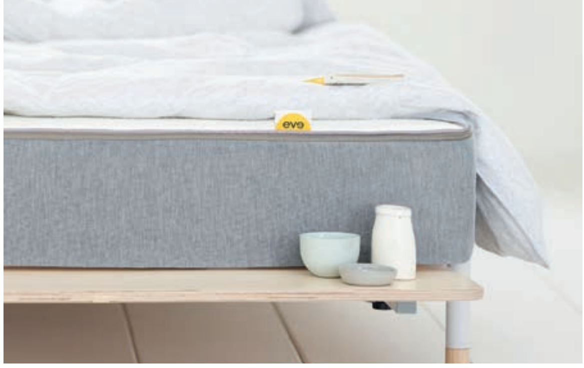
going concern

The financial statements are prepared on a going concern basis notwithstanding that the group is competing and disrupting an established market and as is typical for a business at this stage of its lifecycle is still generating losses as it uses working capital to develop the business model and market share.

The Group has reported an operating loss of £20.3m (2017: £19.0m) with an operating cash outflow of £20.5m (2017: £18.1m). The closing cash balance at 31 December 2018 was £6.0m however, since the end of the Accounts Period, the Group completed a share placing to raise approximately £11.7m before expenses (the "Placing") from existing and new investors and £0.9m of future advertising spend credits. The closing cash balance at 28 February 2019 was £17.8m.

The directors have set out the three core pillars of the re-build strategy in the Chief Executive's statement and have prepared a strategic plan in order to grow the business in the re-focused markets of UK&I and France. The plan is supported by a financial model, underpinned by a number of key business drivers. The business plan assumes continuing improvement in 2019 over those observed in 2018 for the majority of these drivers. The principle assumptions adopted in the forecast model which reflect these improvements are set out below:

- Revenue growth driven primarily by Web-site traffic growth and Conversion rate improvements;
- Marketing expenditure reduction over the prior year and more targeted spend mov-ing forward.



To support the strategic plan the directors have prepared cash flow forecasts covering a period of more than 12 months from the date of approval of these financial statements. These forecasts in the base case indicate that the group will have sufficient funds to meet its liabilities as they fall due until such point that it achieves sustainable profitability and cash generation. However, the delivery of the strategic plan is subject to uncertainty and these have been modelled through sensitivity analysis. Where sensitivity analysis indicates the possibility of a material impact to the ability of the group to meet liabilities as they fall due, the directors have considered what mitigating actions would be required and the timeframe within which those actions are needed. The key mitigating factors are centred around further reductions in controllable spend, including further marketing cost appraisal and reductions in other categories of discretionary spend. The directors also consider that it would be reasonable to target working capital improvements such as reducing days through lower stock levels and reducing debtor days through facilities such as debt factoring as the group does not presently have any debt.

Uncertainties are such that potential mitigating actions, which would be over and above the current strategic plan, may not be sufficient to mitigate all reasonably possible downsides in assumptions. In such downsides the Directors would need further funding and would consider ways of sourcing this, which could include debt or possible further equity funding. The Directors consider that such scenarios are possible, but not the likely outcome.

Based on the above, the directors believe it remains appropriate to prepare the financial statements on a going concern basis. However, these circumstances represent a material uncertainty that may cast significant doubt upon the company's ability to continue as a going concern and, therefore to continue realising its assets and discharging its liabilities in the normal course of business. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

dividends

The directors do not recommend the payment of a dividend.

political donations

No political donations have been made during this financial year.

strategic report

This is set out on pages 10 to 25 of the Annual Report and includes an indication of likely future developments, and forms part of this Directors' Report.

research and development

The Group undertakes a continuous programme of development expenditure. Development expenditure is capitalised only when the end product is technically and commercially feasible and when sufficient resource is available to complete the development, as disclosed in note 10 to the accounts.

corporate social responsibility equality, diversity and rights

We have a strong commitment to equality and opportunity in our employment policies and practices in the workplace. As prescribed by law, we commit that no existing or potential employee will receive less favourable treatment due to their race, creed, nationality, colour, ethnic origin, sexual orientation, gender, gender reassignment, marital status, membership of a trade union, disability, or any other criteria.

auditor

KPMG LLP was appointed as auditor and is willing to continue in office. In accordance with s489(4) of the Companies Act 2006 a resolution for their reappointment will be proposed at the forthcoming Annual General Meeting.

statement on disclosure of information to auditors

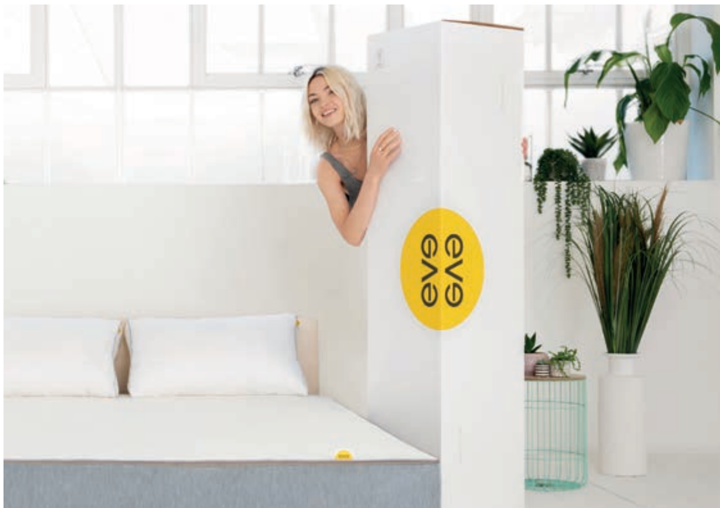
The directors confirm that, so far as each is aware, there is no relevant audit information of which the Group's auditors are unaware. Each of the directors has taken all the steps he should have taken as a director to make himself aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

articles of association

eve Sleep's Articles of Association can only be amended by special resolution and are available on our website.

environment

The Group is committed to minimising the environmental impact of its business operations and seeks to actively manage its carbon footprint. As we continue to grow, we will continue to ensure that our business model and operations are set up in such a way as to limit carbon emissions in the course of our business in areas such as energy efficiency, waste, recycling, emissions and transport, and we will work with all those in our supply chain to ensure that their procedures and processes promote sustainable practices.



directors

Details of the directors as at the date of this report are set out on pages 28 and 29.

The interests of the directors and their closely associated persons in the share capital of the Company, along with details of directors' share options and awards, are contained in the Directors' Remuneration Report on pages 40 to 41. At no time during the year did any of the directors have a material interest in any significant contract with eve Sleep plc.

share capital

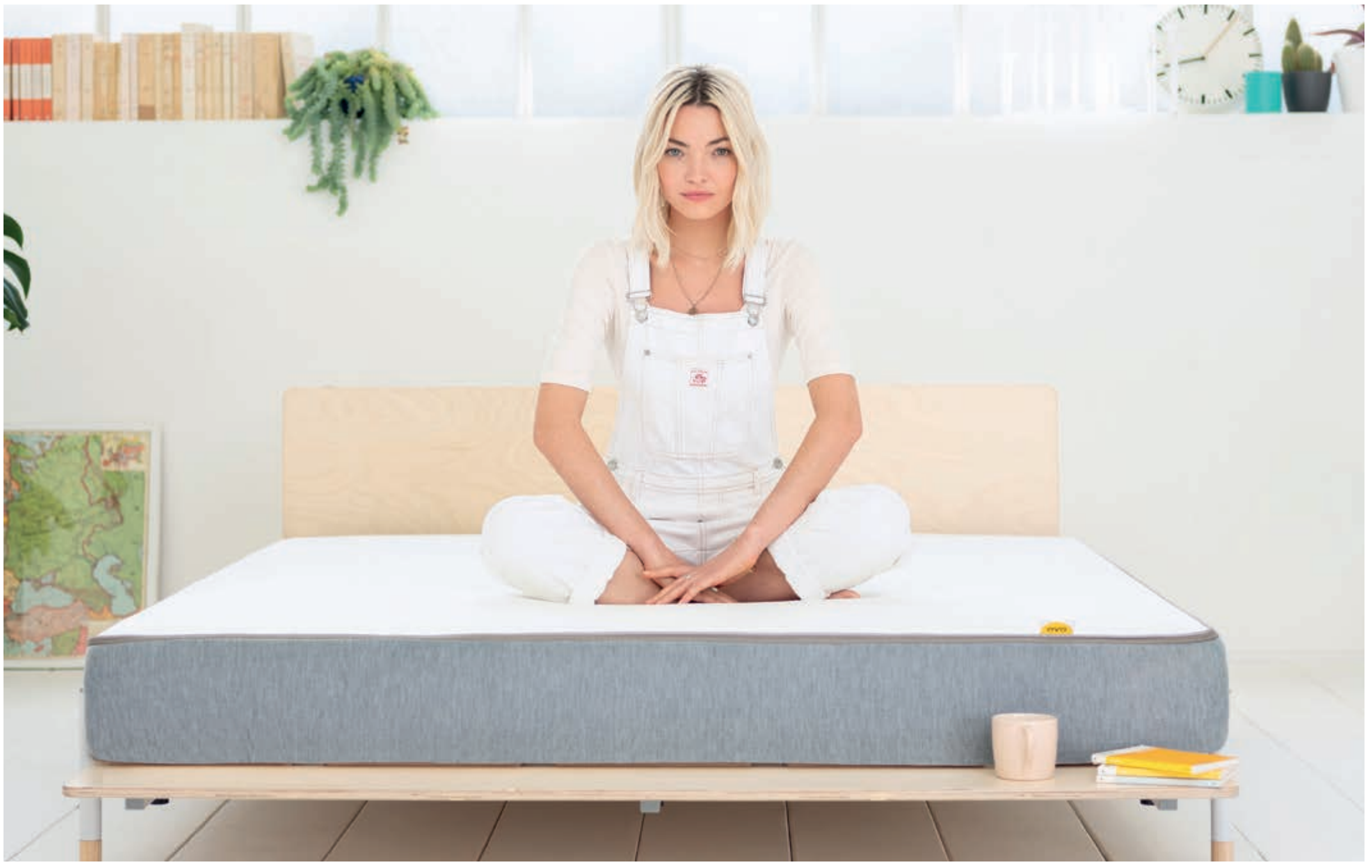
The issued share capital of the Company at 31 December 2018 was 139,735,161 ordinary shares of £0.001. Full details of the issued share capital, together with the details of shares issued during the year to 31 December 2018, are shown in Note 16 to the financial statements.

annual general meeting

The Annual General Meeting of the Company will be held at 10am on Thursday 2 May 2019 at Norton Rose Fulbright offices, 3 More London Riverside, London, SE1 2AQ. The Notice of Meeting has been sent to shareholders along with this Annual Report.

Approved and signed on behalf of the Board

Paul Pindar
Chairman
11 March 2019



governance report

independent auditor's report to the members of eve Sleep plc

1. Our opinion is unmodified

We have audited the financial statements of eve Sleep PLC ("the Company") for the year ended 31 December 2018 which comprise the Consolidated statement of profit and loss and other comprehensive income, Consolidated statement of financial position, Consolidated statement of changes in equity, Consolidated statement of cash flows, Company statement of financial position, Company statement of changes in equity, Company statement of cash flows, and the related notes, including the accounting policies in note 2.

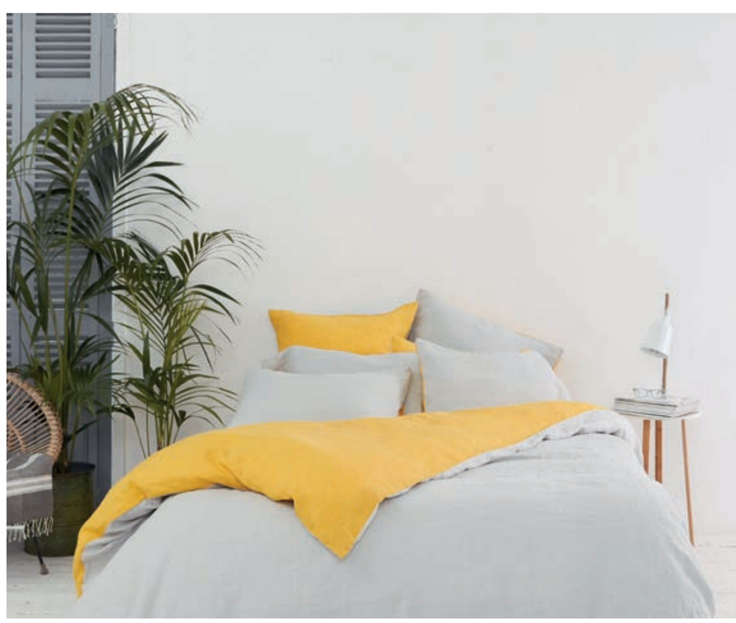
In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2018 and of the Group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed entities. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Overview		
Materiality: Group financial statements as a whole	£0.34m (2017: £0.25m) 0.9% (2017: 1%) of revenue	
Coverage	100% (2017:100%) of group revenue	
Key audit matters		**vs 2017**
Event Driven	Going Concern	▲
	The impact of uncertainties due to the UK exiting the European Union on our audit	▲
Recurring risks	Provision for returns	◄ ►



governance report

independent auditor's report to the members of eve Sleep plc (continued)

2. Material uncertainty related to going concern

	The risk	Our Reponse
Going concern We draw attention to note 2.4 to the financial statements which indicates that there is a material uncertainty relating to the Group and Parent Company's ability to continue as a going concern. The Group has reported an operating cash outflow of £20.6m for the year to 31 December 2018 with cash on hand as at that date of £6m. The Group has set out a re-build strategy to grow revenue whilst reducing marketing expenditure. The Directors' forecasts underpinning this strategy indicate that the group will have sufficient funds to meet its liabilities as they fall due until such point that it achieves sustainable cash generation. However, the projections are subject to uncertainty and not wholly within the Group's control. In downside scenarios, where these forecasts are not achieved, the Group will consider further reductions in marketing expenditure and other cost saving measures. However reasonably possible downside outcomes could result in the Group and company needing to seek further funding. These events and conditions, along with the other matters explained in note 2.4, constitute a material uncertainty that may cast significant doubt on the group's and the parent company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.	**Disclosure quality** *Group and parent company* The financial statements explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Group and parent company. That judgement is based on an evaluation of the inherent risks to the Group's and Company's re-build strategy and forecast cash flows, principally any failure to successfully grow revenue at the projected rate whilst reducing marketing expenditure, and how these risks (including the impact of Brexit) might affect the Group's and Company's financial resources or ability to continue operations over a period of at least a year from the date of approval of the financial statements and until the Group achieves cash generation. The risk for our audit is whether or not those risks are such that they amount to a material uncertainty that may cast significant doubt about the ability to continue as a going concern. If so, that fact is required to be disclosed (as has been done) and, along with a description of the circumstances, is a key financial statement disclosure.	**Our procedures included:** **Historical comparisons:** Evaluated the track record of assumptions used versus actual results in order to assess the historical accuracy of the group's forecasting process. Key assumptions evaluated included the assessment of expected revenue growth for the forecast period and the relationship of key direct costs and marketing to revenue. **Key dependency assessment:** assessing the Group's cash flow model to identify key inputs for further enquiry. The key inputs included: Revenue growth, marketing expenditure, the impact of Brexit on the supply chain and gross profit margin percentage. **Sensitivity analysis:** We considered sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these key dependencies individually and collectively. Performing sensitivity analysis on the revenue growth, marketing expenditure, the impact of Brexit on the supply chain and gross profit margin percentage assumptions in the forecast to identify whether reasonably plausible adverse scenarios could exhaust available resources. **Our sector experience:** Critically assessed the directors' going concern assessment, including the feasibility of forecasts and the level of downside sensitivities applied, challenging key assumptions in the forecast by comparing them to actual past performance of the entity, our knowledge of the business, the market and key changes in the business that have occurred during the current financial year. In particular, we challenged the forecast decrease in forecasted marketing spend, the change in marketing strategy and the ability of the Group to generate brand awareness and required level of interest in the Group to generate sales. **Evaluating directors' intent:** We evaluated the achievability of the actions the Directors consider they would take to improve the position should the risks materialise. This included consideration of committed marketing spend and management's ability to adjust this in line with cash availability. **Assessing transparency:** Assessing the completeness and accuracy of the matters covered in the going concern disclosure by critically assessing the disclosures in respect of going concern within the financial statements our knowledge of the relevant facts and circumstances developed during our audit work, considering economic outlook, key areas of uncertainty and mitigations plans and actions by management to respond to these risks.

3. Other key audit matters: including our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Going concern is a significant key audit matter and is described in section 2 of our report. In arriving at our audit opinion above, the other key audit matters were as follows:

	The risk	Our Reponse
The impact of uncertainties due to the UK exiting the European Union on our audit *Refer to page 25 (principal risks), page 56 (accounting policy).*	**Unprecedented levels of uncertainty** *Group and parent company* All audits assess and challenge the reasonableness of estimates and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements (see above). All of these depend on assessments of the future economic environment and the Group's future prospects and performance. Brexit is one of the most significant economic events for the UK and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown.	We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included: **Our Brexit knowledge:** We considered the directors' assessment of Brexit-related sources of risk for the Group's business and financial resources compared with our own understanding of the risks. We considered the directors' plans to take action to mitigate the risks. **Sensitivity analysis:** When addressing going concern and other areas that depend on forecasts, we compared the directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty and, where forecast cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty. **Assessing transparency:** As well as assessing individual disclosures as part of our procedures on going concern we considered all of the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.
Provision for returns (Consolidated: Provision for Returns £0.8m; 2017:£0.8m) *Refer to page 35 (Audit Committee Report) and note 2.16 on page 60 (accounting policy)*	**Subjective estimate** *Group and parent company* The Group has one main source of income which relates to the sale of goods. The sale of goods is recognised on delivery, with customers having the right to return the goods within 100 days for a full refund. A provision is recognised for expected returns post year-end, which is subject to estimation uncertainty. The effect of these matters is that, as part of our risk assessment, we determined that the provision for returns has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements (note 2.20) disclose the sensitivity estimated by the Group.	**Benchmarking assumptions:** We challenged the key assumptions used in sales return provision calculation, in particular the percentage rate of return applied by comparing the year end provision to actual 2018 sales returns in 2019. **Methodology choice:** We critically assessed the methodology applied to calculate the returns provision by comparing whether this is reasonable based on our knowledge of the business, the market and key changes in the business that have occurred during the current financial year. We compared the rate of return applied with the average rate of return for 2018 for sales where the 100 day period has lapsed. **Historical comparisons:** We considered the historical accuracy of the Group's previous provision estimates by comparing the prior year provision recorded to actual returns in the 2018 financial year. **Assessing transparency:** We considered the adequacy of the Group's disclosures in respect of provision for sales returns.

governance report

independent auditor’s report to the members of eve Sleep plc (continued)

We continue to perform procedures over the accounting for eve Sleep plc’s share option scheme. However, given that there has been no significant issue of new share options during the year that would be subject to valuation and estimation uncertainty, we have not assessed this as one of the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year.

4. Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at £0.34m (2017: £0.25m), determined with reference to a benchmark of Group revenue of £34.8m (2017: £27.7m), of which it represents 0.9% (2017: 1%). We consider total revenue to be the most appropriate benchmark as it provides a more stable measure year on year than Group loss before tax.

Materiality for the parent company financial statements as a whole was set at £0.24m (2017: £0.18m), determined with reference to a benchmark of company total revenue of £27.2m (2017: £16.1m), of which it represents 0.9% (2017: 1%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.017m (2017: £0.013m), in addition to other identified misstatements that warranted reporting on qualitative grounds.

The Group team performed the audit of the Group as if it was a single aggregated set of financial information. The audit was performed using the materiality levels set out above

5. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors’ report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors’ report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

6. We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or

- the parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 42, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

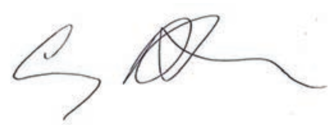
Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

8. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.



Craig Douglas
(Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor Chartered Accountants

15 Canada Square
London
E14 5GL
11 March 2019

consolidated statement of profit and loss and other comprehensive income

for the year ended 31 December 2018

	Note	2018 £	2017 £
Revenue	3	34,818,260	27,744,995
Cost of sales		(16,442,852)	(11,749,049)
Gross profit		**18,375,408**	**15,995,946**
Distribution expenses		(4,056,074)	(3,430,085)
Administrative expenses		(34,360,477)	(27,686,895)
Share-based payment charge	17	(303,281)	(1,757,204)
Operating loss before IPO-related expenditure	4	**(20,344,425)**	**(16,878,238)**
IPO-related expenditure		-	(2,124,528)
Operating loss		**(20,344,425)**	**(19,002,766)**
Net finance income	7	44,822	25,096
Loss before tax		**(20,299,603)**	**(18,977,670)**
Taxation	8	193,192	-
Loss for the year		**(20,106,411)**	**(18,977,670)**
Other comprehensive income			
Foreign currency differences from overseas operations		98,720	-
Total comprehensive loss for the year		**(20,007,691)**	**(18,977,670)**
Basic and diluted loss per share	18	(14.46p)	(16.17p)

All results relate to continuing activities.

Notes 1 to 26 form part of the historical financial information shown above.

consolidated statement of financial position

at 31 December 2018

	Note	2018 £	2017 £
Non-current assets			
Property, plant and equipment	9	-	36,458
Intangible assets	10	669,742	378,538
		669,742	**414,996**
Current assets			
Inventories	11	1,127,876	691,340
Trade and other receivables	12	4,626,750	4,177,056
Cash and cash equivalents	13	6,031,936	26,926,389
Current tax receivable	8	193,192	-
		11,979,754	**31,794,785**
Total assets		**12,649,496**	**32,209,782**
Current liabilities			
Trade and other payables	14	4,561,793	4,548,019
Provisions	15	955,949	826,702
		5,517,741	**5,374,721**
Total liabilities		**5,517,741**	**5,374,721**
Net assets		**7,131,755**	**26,835,060**
Equity attributable to equity holders of the parent			
Share capital	16	139,735	138,631
Share premium		36,716,371	36,716,371
Share-based payment reserve	17	250,073	138,794
Retained earnings		(30,073,145)	(10,158,737)
Foreign currency translation reserve		98,720	-
Total equity		**7,131,755**	**26,835,060**

Notes 1 to 26 form part of the historical financial information shown above.

These financial statements were approved by the board of directors on eve Sleep plc and were signed on it’s behalf by:

Abid Ismail
Director
11 March 2019
Company registered number: 09261636

consolidated statement of changes in equity

for the year ended 31 December 2018

	Share Capital £	Share Premium £	Share based payment reserve £	Retained Earnings £	Foreign currency translation reserve £	Total Equity £
For the year ended 31 December 2018						
Balance at 1 January 2018	**138,631**	**36,716,371**	**138,794**	**(10,158,736)**	**-**	**26,835,060**
Exercise of options	1,104	-	-	-	-	1,104
Share-based payment charge	-	-	303,281	-	-	303,281
Transfer on exercise of options	-	-	(192,003)	192,003	-	-
Total transactions with owners	**1,104**	**-**	**111,279**	**192,003**	**-**	**304,385**
Loss for the year	-	-	-	(20,106,411)	-	(20,106,411)
Other comprehensive income for the year	-	-	-	-	98,720	98,720
Balance at 31 December 2018	**139,735**	**36,716,371**	**250,073**	**(30,073,145)**	**98,720**	**7,131,755**
For the year ended 31 December 2017						
Balance at 1 January 2017	**316**	**16,124,928**	**-**	**(12,838,441)**	**-**	**3,286,803**
Issue of shares	38,767	40,698,396	-	-	-	40,737,163
Bonus share issue	85,948	(85,948)	-	-	-	-
Share premium cancellation	-	(20,038,965)	-	20,038,965	-	-
Exercise of options	13,600	17,960	-	-	-	31,560
Share-based payment charge	-	-	1,757,204	-	-	1,757,204
Transfer on exercise of options	-	-	(1,618,410)	1,618,410	-	-
Total transactions with owners	**138,315**	**20,591,443**	**138,794**	**21,657,375**	**-**	**42,525,927**
Loss for the year				(18,977,670)	-	(18,977,670)
Balance at 31 December 2017	**138,631**	**36,716,371**	**138,794**	**(10,158,736)**	**-**	**26,835,060**

consolidated statement of cash flows

for the year ended 31 December 2018

	2018 £	2017 £
Cash flows from operating activities		
Loss for the year	(20,106,411)	(18,977,670)
IPO-related expenditure	-	2,124,528
Finance income	(44,822)	(25,096)
Taxation	(193,192)	-
Adjustments for:		
Interest paid	44,822	25,096
Amortisation	120,571	7,945
Impairment	39,608	-
Increase in inventories	(436,536)	(200,159)
Increase in trade and other receivables	(449,694)	(3,127,395)
Increase in trade and other payables	13,773	2,361,778
Increase in provisions	129,247	111,606
Share-based payment charge	303,281	1,757,204
IPO-related expenditure	-	(2,124,528)
Net cash outflow from operating activities	**(20,579,352)**	**(18,066,692)**
Cash flows from investing activities		
Acquisition of property, plant and equipment	(3,150)	(36,458)
Development of intangible assets	(411,775)	(378,538)
Net cash outflows from investing activities	**(414,925)**	**(414,996)**
Cash flows from financing activities		
Proceeds from issue of share capital	1,104	40,768,722
Net cash outflows from financing activities	**1,104**	**40,768,722**
Net cash outflows	**(20,993,173)**	**22,287,034**
Cash at beginning of year	**26,926,389**	**4,639,355**
Movement in cash	(20,993,173)	22,287,034
Effect of exchange rate fluctuations on cash held	98,720	-
Cash at end of year	**6,031,936**	**26,926,389**

notes to the financial statements

forming part of the financial statements

1. Reporting Entity

eve sleep PLC (the “Company”) is a public company, domiciled and registered in England in the UK. The registered number is 09261636 and the registered address at 31st December 2018 was 128 Albert Street, London, England, NW1 7NE.

2. Accounting Policies

2.1 Basis of preparation

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the “Group”).

The Group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU (“Adopted IFRSs”). The Company has elected to prepare its parent company financial statements in accordance with adopted IFRS, these are presented on pages 78 to 80.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these Group financial statements.

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 2.20.

2.2 Changes in accounting policy

In these financial statements, the Group has changed its accounting policies in the following areas:

- Financial instruments
- Revenue recognition

The Group has adopted the following IFRSs in these financial statements:

- IFRS 9 Financial Instruments (see note 19)
- IFRS 15 Revenue from Contract with Customers (see note 2.16)

These accounting policies have been applied retrospectively. The impact of transition to these IFRS has not required restatement of the primary statements (see note 25).

2.3 Measurement Convention

The financial statements are prepared on the historical cost basis.

2.4 Going Concern

The financial statements are prepared on a going concern basis notwithstanding that the group is competing and disrupting an established market and as is typical for a business at this stage of its lifecycle is still generating losses as it uses working capital to develop the business model and market share.

The Group has reported an operating loss of £20.3m (2017: £19.0m) with an operating cash outflow of £20.6m (2017: £18.1m). The closing cash balance at 31 December 2018 was £6.0m however, since the end of the Accounts Period, the Group completed a share placing to raise approximately £11.7m net of expenses, (the “Placing”) from existing and new investors and £0.9m of future advertising spend credits. The closing cash balance at 28 February 2019 was £17.8m.

The directors have set out the three core pillars of the re-build strategy in the Chief Executive’s statement and have prepared a strategic plan in order to grow the business in the re-focused markets of UK&I and France. The plan is supported by a financial model, underpinned by a number of key business drivers. The business plan assumes continuing improvement in 2019 over those observed in 2018 for the majority of these drivers. The principle assumptions adopted in the forecast model which reflect these improvements are set out below:

notes to the financial statements
continued

2.4 Going Concern (continued)

- Revenue growth driven primarily by Website traffic growth and Conversion rate improvements;
- Marketing expenditure reduction over the prior year and more targeted spend moving forward.

To support the strategic plan the directors have prepared cash flow forecasts covering a period of more than 12 months from the date of approval of these financial statements. These forecasts in the base case indicate that the group will have sufficient funds to meet its liabilities as they fall due until such point that it achieves sustainable profitability and cash generation. However, the delivery of the strategic plan is subject to uncertainty and these have been modelled through sensitivity analysis. Where sensitivity analysis indicates the possibility of a material impact to the ability of the group to meet liabilities as they fall due, the directors have considered what mitigating actions would be required and the timeframe within which those actions are needed. The key mitigating factors are centred around further reductions in controllable spend, including further marketing cost appraisal and reductions in other categories of discretionary spend. The directors also consider that it would be reasonable to target working capital improvements such as reducing days through lower stock levels and reducing debtor days through facilities such as debt factoring as the group does not presently have any debt.

Uncertainties are such that potential mitigating actions, which would be over and above the current strategic plan, may not be sufficient to mitigate all reasonably possible downsides in assumptions. In such downsides the Directors would need further funding and would consider ways of sourcing this, which could include debt or possible further equity funding. The Directors consider that such scenarios are possible, but not the likely outcome.

Based on the above, the directors believe it remains appropriate to prepare the financial statements on a going concern basis. However, these circumstances represent a material uncertainty that may cast significant doubt upon the company's ability to continue as a going concern and, therefore to continue realising its assets and discharging its liabilities in the normal course of business. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

2.5 Presentational Currency

The Group financial statements are presented in Sterling.

2.6 Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, the Group takes into consideration potential voting rights. The acquisition date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

2.7 Foreign Currency

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising

notes to the financial statements
continued

2.7 Foreign Currency (continued)

on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined.

The assets and liabilities of foreign operations are translated to the Group's presentational currency, Sterling, at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated at an average rate for the year where this rate approximates to the foreign exchange rates ruling at the dates of the transactions.

Exchange differences arising from this translation of foreign operations are reported as an item of other comprehensive income and accumulated in the foreign currency translation reserve (FCTR) or non-controlling interest, as the case may be. When a foreign operation is disposed of, such that control, joint control or significant influence (as the case may be) is lost, the entire accumulated amount in the FCTR, net of amounts previously attributed to non-controlling interests, is recycled to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while still retaining control, the relevant proportion of the accumulated amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while still retaining significant influence or joint control, the relevant proportion of the cumulative amount is recycled to profit or loss.

2.8 Classification of financial instruments issued by the Group

Following the adoption of IFRS 9, financial instruments issued by the Group are treated as equity only to the extent that they meet the following two conditions:

(a) they include no contractual obligations upon the group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Group; and

(b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

2.9 Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Trade and Other receivables

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Trade and Other payables

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

notes to the financial statements
continued

2.10 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment. Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment.

The estimated useful lives are as follows:

- Plant and equipment 3 years
- Fixtures and fittings 3 years

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

2.11 Intangible assets

The costs of acquiring and developing software that is not integral to its related hardware is capitalised separately as an intangible asset. Capitalised software costs include external direct costs of material and services and payroll related costs for employees who are directly associated with the project. Capitalised software development costs are stated at historic cost less accumulated amortisation. Amortisation is calculated on a straight-line basis over the assets' expected economic lives, normally between three to five years, and applied starting in the financial year after capitalisation. Software under development is held at cost less any recognised impairment loss.

Expenditure on development activity is capitalised if the product or process is technically and commercially feasible, and if the Group intends to, and has the technical ability and sufficient resources to complete development, future economic benefits are probable, and if the Group can measure reliably the expenditure attributable to the intangible asset during its development. Development activities involve a plan or design for the production of new or substantially improved products or processes.

Where no intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred. Expenditure on research activities is recognised as an expense in the period in which it is incurred.

The estimated useful lives are as follows:

- Development costs 3 years

Amortisation methods, useful lives and residual values are reviewed at each balance sheet date.

2.12 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is based on the weighted average principle and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs in bringing them to their existing location and condition. A provision is also made to write down any slow-moving or obsolete inventory to net realisable value.

2.13 Investments

Investments in subsidiary companies are stated at cost and are subject to review for impairment indicators if identified.

2.14 Impairment excluding inventories

The Group recognises loss allowances for expected credit losses (ECLs) on financial assets measured at amortised cost, debt investments measured at FVOCI and contract assets (as defined in IFRS 15).

The company measures loss allowances at an amount equal to lifetime ECL, except for other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition which are measured as 12-month ECL.

notes to the financial statements

continued

2.14 Impairment excluding inventories (continued)

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECL.

2.15 Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

2.16 Revenue

Revenue and profit before tax are attributable to the one principal activity of the business. Revenue represents the net sales of goods including freight, excluding value added tax. Revenue from the sale of goods is recognised when the Group has transferred the goods to the buyer, less appropriate deduction for actual and expected returns and relevant discounts.

Management have considered the recognition and measurement of a right of return asset as required under IFRS 15, however the asset is deemed immaterial to users of these statements and on this basis has not be recognised.

As required under IFRS 15, a disaggregation of revenue in respect of primary geographical markets is shown in the Group's Segmental analysis (note 3) and significant distribution channels set out below:

	2018 £	2017 £
Direct to consumer revenue channel	26,996,512	23,769,603
Multi-channel revenue channel	7,821,748	3,975,392
	34,818,260	**27,744,995**

2.17 Expenses

Operating lease payments
Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

Financing income and expenses
Financing expenses comprise interest payable, finance charges on shares classified as liabilities and finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the income statement (see foreign currency accounting policy). Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial time to be prepared for use, are capitalised as part of the cost of that asset. Financing income comprise interest receivable on funds invested, dividend income, and net foreign exchange gains.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

2.18 Employee benefits

Defined contribution plans
The company operates a defined contribution plan. A defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

Share based payment transactions
Share-based payment arrangements in which the Group receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Group.

notes to the financial statements
continued

2.18 Employee benefits (continued)

The grant date fair value of share-based payments awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the awards. The fair value of the options granted is measured using an option valuation model, taking into account the terms and conditions upon which the awards were granted. The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with market and non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

Share based payments reserve
This comprises the cumulative share-based payment charge recognised in the Statement of Comprehensive Income in relation to equity-settled options and share rights issued but not yet exercised.

2.19 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

2.20 Significant estimates and judgements

The preparation of financial statements in conformity with IFRS as adopted by the EU requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities. The estimates and assumptions are based on historical experience and various other factors believed to be reasonable under the circumstances. Actual results could differ from these estimates and any subsequent changes are accounted for when such information becomes available. The judgements, estimates and assumptions that are the most subjective or complex are discussed below:

Accounting estimates

Slow-moving inventory provision (note 11)
Inventory is carried at the lower of cost or net realisable value. The estimation of net realisable value may be different from the future actual value realised due to provisions for slow-moving inventory. The provision for slow-moving inventory is based upon an analysis of forecast inventory turnover. Management calculates the best estimate of the subsequent volumes of inventory held at year end forecast to be sold in a period greater than twelve months from the balance sheet date. In reference to this inventory population a slow-moving stock provision is calculated. This accounting estimate is sensitive to the input of forecast inventory turnover. However, upon sensitivity analysis management have concluded that the estimate is not materially sensitive to variance of the input estimates and therefore not a key estimate of the financial statements.
2.20 Significant estimates and judgements (continued)

notes to the financial statements
continued

Refunds provision (note 15)
The Group recognises a provision for the probable financial liability to refund customers for returned products. Provisions are calculated in reference to historical return rates. This estimate is therefore sensitive to management's estimate of expected customer refunds in subsequent periods, however, management have conducted sensitivity analysis and have concluded that the estimate is not materially sensitive to the variance of the key input estimates, evidenced as follows:

	2018 £
1.5 percentage point increase in return rates experienced in subsequent periods	(107,751)
1.5 percentage point decrease in return rates experienced in subsequent periods	107,751

Accounting judgements

Warranty provision (note 15)
The Group recognises a provision for the probable financial liability to customers in respect of warranty claims. The provision is calculated in reference to historical rates of successful manufacturer warranty claims. In the application of IFRS 15, management do not consider the provision of a warranty to customers to be a separate performance obligation. This is a key management judgement which will be reviewed in future accounting periods.

Intangible assets (note 10)
Development expenditure is recognised on the statement of financial position when certain criteria are met, as described more fully in the accounting policy on the treatment of research and development expenditure. Management uses its judgement in assessing development against the criteria. After capitalisation, management monitors whether the recognition requirements continue to be met and whether there are any indicators that the asset may be impaired, as discussed above.

2.21 Adopted IFRS not yet applied

The accounting policies applied are consistent with those adopted and disclosed in the Group financial statements for the year ended 31 December 2018. Various new accounting standards and amendments were issued during the year, none of which have an impact on the current year.

The following accounting standards are in issue but not yet effective and have not been adopted by the Group:

IFRS 16 `Leases' is effective for periods beginning on or after 1 January 2019. The standard will require lease liabilities and the right of use assets for leases to be recognised on the Statement of Financial Position. Lessees will be required to separately recognise the interest expense for the liability and depreciation for the right of use asset on the Statement of Profit and Loss and Other Comprehensive Income. The Group has completed an assessment of IFRS 16. The net impact on the income statement between the old and the new leasing standards is immaterial, and a recognition of right of use assets and liabilities will be presented on the balance sheet. The group has reviewed its portfolio of leases which includes the lease of its headquarters only and notes that restatement of current assets (right of use asset) and current liabilities as at 31 December 2018 will be required when preparing its financial statements for the year ended 31 December 2019.

notes to the financial statements
continued

3 Segmental analysis

IFRS 8, "Operating Segments", requires operating segments to be determined based on the Group's internal reporting to the Chief Operating Decision Maker. The Chief Operating Decision Maker has been determined to be the executive board and the primary segmental reporting format of the Group is geographical by customer location, based on the Group's management and internal reporting structure.

The executive board assesses the performance of each segment based on revenue and gross profit after distribution expenses, which excludes administrative expenses.

	UK&I	France	Rest of Europe	Rest of the World	Total
For the year ended 31 December 2018					
Revenue	**22,520,896**	**6,833,520**	**4,744,696**	**719,148**	**34,818,260**
Cost of Sales	(10,703,472)	(3,174,414)	(2,197,303)	(367,663)	(16,442,852)
Gross Profit	**11,817,424**	**3,659,106**	**2,547,393**	**351,485**	**18,375,408**
Distribution expenses	(1,697,775)	(1,204,140)	(1,079,010)	(75,149)	(4,056,074)
Segment results	**10,119,649**	**2,454,966**	**1,468,383**	**276,335**	**14,319,334**
Administration expenses					(34,360,478)
Share based payment charge					(303,281)
Net finance income					44,822
Taxation					193,192
Loss for the year					**(20,106,411)**
	UK&I	**France**	**Rest of Europe**	**Rest of the World**	**Total**
For the year ended 31 December 2017					
Revenue	**16,145,542**	**5,544,040**	**5,021,594**	**1,033,819**	**27,744,995**
Cost of Sales	(6,554,822)	(2,498,587)	(2,362,965)	(332,675)	(11,749,049)
Gross Profit	**9,590,720**	**3,045,453**	**2,658,629**	**701,144**	**15,995,946**
Distribution expenses	(1,412,199)	(806,097)	(1,022,365)	(189,423)	(3,430,084)
Segment results	**8,178,521**	**2,239,356**	**1,636,264**	**511,721**	**12,565,862**
Administration expenses					(27,686,895)
IPO Related expenditure					(2,124,528)
Share based payment charge					(1,757,204)
Net finance income					25,096
Taxation					-
Loss for the year					**(18,977,670)**

No analysis of the assets and liabilities of each operating segment is provided to the Chief Operating Decision Maker in the monthly management accounts. Therefore no measure of segmental assets or liabilities is disclosed in this note.

The reporting segments have been updated in 2018 to reflect the change in strategy of the Group effective in the second half of 2018 and as such prior period operating segments have been updated to reflect this.

Due to the nature of its activities the Group is not reliant on any major customers.

notes to the financial statements
continued

4 Expenses and auditor's remuneration

Included in profit/loss are the following:

	2018 £	2017 £
Auditors remuneration: Audit of these financial statements		
Audit of these financial statements	65,000	60,000
Audit related assurance services	-	15,000
Amounts received by auditor's and their associates in respect of:		
Tax advisory services	61,050	126,650
Reporting accounting for admission to AIM	-	150,000
Other non audit services	-	7,500
Tax compliance services	236,502	10,649
Other items		
Depreciation of property, plant and equipment	39,608	7,945
Amortisation of intangible assets	120,571	-
Cost of inventory write down	70,632	-
Lease expenditure	767,480	423,959
Staff and country exit costs	752,261	-
Research and development expenditure	-	-

5 Staff numbers and cost

The average number of persons employed by the Group (including directors) during the year, analysed by category, was as follows:

	2018	2017
Finance	6	4
Marketing	23	22
Operations	82	70
	111	**96**

notes to the financial statements
continued

5 Staff numbers and cost (continued)

The aggregate payroll costs of these persons were as follows:

	2018 £	2017 £
Wages and salaries	4,851,555	3,992,354
Social Security costs	526,054	476,234
Share-based payment charge (note 17)	303,281	1,757,204
Employer pension contributions	48,664	6,894
	5,729,554	**6,232,686**

6 Remuneration of key management personnel and Directors

The aggregate compensation to the Directors of eve Sleep PLC (Executive and Non-Executive) who were the key management personnel was as follows:

	2018 £	2017 £
Salaries or fees	368,423	361,990
Employer pension contributions	1,447	196
Employer's national insurance	65,688	44,109
Share-based payment charge	36,553	761,139
Compensation for loss of office	150,000	-
	622,111	**1,167,434**

Directors' aggregate emoluments and pension payments are detailed in the Directors' Remuneration Report on pages 40, along with directors' interests in issued shares and share options on page 41, which form part of these audited financial statements. The gain on exercise of share options in respect of directors for the year was £nil (2017: £7,578,177).

Directors of the Company and their immediate relatives control 7.7% per cent of the voting shares of the Company.

7. Finance income

Finance income receivable on cash and cash equivalents is recognised in the Statement of profit and los and other comprehensive income as it is earned.

	2018 £	2017 £
Interest receivable on cash and cash equivalents	44,822	25,096

notes to the financial statements
continued

8 Taxation

Recognised in the income statement:

	2018 £	2017 £
Current tax expense		
UK Corporation tax for the current year	-	-
Research and development tax credit for the prior year	**193,192**	**-**
Total current tax	**193,192**	**-**
Deferred Tax		
Deferred tax for the current year	-	-
Total deferred tax	**-**	**-**

Reconciliation of effective tax rate:

	2018 £	2017 £
Loss for the year	(20,106,411)	(18,977,670)
Total tax credit/(expense)	**193,192**	**-**
Loss excluding taxation	**(20,299,603)**	**(18,977,670)**
Tax using the UK corporation tax rate of 19% (2017: 19.25%)	**(3,856,925)**	**(3,653,201)**
Effects of:		
Expenses not deductible for tax purposes	549,424	799,837
Fixed asset differences	-	472
Research and development tax credit for the prior year	**193,192**	**-**
Current year losses for which no deferred tax asset was recognised	3,307,500	2,852,892
Total Tax credit/(expense)	**193,192**	**-**

The Group has accumulated tax losses available for offset against future profits of £46,415,639 (2017: £26,653,156).

A deferred tax asset has not been recognised in respect of these losses as there is uncertainty regarding the timing of when these losses will be recovered.

Reductions in the UK corporation tax rate from 20% (effective from 1 April 2017) to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the Group's future tax charge accordingly.

notes to the financial statements

continued

9 Property, plant and equipment

	Plant and equipment £	Fixtures & Fittings £	Total £
Cost			
Balance at 1 January 2017	**7,326**	**3,266**	**10,592**
Acquisitions	-	36,458	36,458
Balance at 31 December 2017	**7,326**	**39,724**	**47,050**
Acquisitions	3,150	-	3,150
Balance at 31 December 2018	**10,476**	**39,724**	**50,200**
Depreciation and Impairment			
Balance at 1 January 2017	**1,831**	**816**	**2,647**
Depreciation charge for the year	5,495	2,450	7,945
Balance at 31 December 2017	**7,326**	**3,266**	**10,592**
Depreciation charge for the year	-	-	-
Impairment charge for the year	3,150	36,458	39,608
Balance at 31 December 2018	**10,476**	**39,724**	**50,200**
Net Book Value			
At 31 December 2017	**-**	**36,458**	**36,458**
At 31 December 2018	**-**	**-**	**-**

10 Intangible assets

	Development Costs £	Assets under construction £	Total £
Cost			
Balance at 1 January 2017	**-**	**-**	**-**
Acquisitions - internally generated	92,705	-	92,705
Acquisitions - externally generated	190,235	95,598	285,833
Balance at 31 December 2017	**282,940**	**95,598**	**378,538**
Acquisitions - internally generated	-	168,833	168,833
Acquisitions - externally generated	-	242,942	242,942
Transfers	105,030	(105,030)	-
Balance at 31 December 2018	**387,970**	**402,343**	**790,313**
Amortisation and Impairment			
Balance at 1 January 2017	**-**	**-**	**-**
Amortisation and impairment for the year	-	-	-
Balance at 1 January 2018	**-**	**-**	**-**
Amortisation and impairment for the year	120,571	-	120,571
Balance at 31 December 2018	**120,571**	**-**	**120,571**
Net Book Value			
At 31 December 2017	**282,940**	**95,598**	**378,538**
At 31 December 2018	**267,399**	**402,343**	**669,742**

Development costs relate to internal and external costs incurred in respect of the infrastucture of the website platform and ERP system. Assets under construction at 31 December 2018 relate to internal and external costs incurred for the development of ERP software for internal use and is expected to go live in 2019.

notes to the financial statements

continued

11 Inventories

	2018 £	2017 £
Finished Goods	1,127,876	691,340

There was no write-down of inventories to net realisable value in the year (2017: £nil). Included within inventories is £551,580 expected to be recovered in more than 12 months from the balance sheet date. This balance of inventory is fully-provided for within the Group's slow-moving inventory provision of £551,580 (2017: £181,752). Inventory days were 25 days in 2018 (2017: 21 days). Finished goods recognised in cost of sales in the year amounted to £16,358,170.

12 Trade and Other receivables

	2018 £	2017 £
Trade Receivables	1,815,260	767,426
Other receivables	1,124,112	2,608,934
Prepayments	1,320,556	800,696
Other current assets	366,823	-
	4,626,750	**4,177,056**

The average credit period offered on sales of goods during 2018 was 27 days (2017: 34 days). The average days sales outstanding (''DSO'') in 2018 was 82 days (2017: 51 days). At 31 December 2018, trade receivables at a nominal value of £35,681 (2017: £25,301) were impaired and fully provided for.

All trade and other receivables are short-term. The directors consider that the carrying amount of trade receivables approximates to their fair value. All trade and other receivables have been reviewed for indications of impairment.

Trade receivables represent amounts due from wholesale and retail customers.

The Group has not charged interest for late payment of invoices in the current year or prior period.

Allowances against doubtful debts are estimated by reference to irrecoverable amounts based on past default experience. Specific counterparty risk is also considered where an analysis of the counterparty's current financial position indicates a change in credit risk.

Before accepting any significant new customer, the Group uses a variety of credit scoring systems to assess the potential customer's credit quality and to define credit limits for each customer. Limits and scoring attributed to customers are reviewed regularly.

Three major retail customers each accounted for more than 10% of the total balance of trade receivables on 31 December 2018, consistent with 2017 where three major retail customers each accounted for more than 10% of the total balance of trade receivables on 31 December 2017.

Included in other receivables is £0.1m relating to VAT which is expected to be fully recoverable.

	2018 £	2017 £
Not overdue	1,177,697	378,260
Overdue between 0-30 days	382,274	378,240
Overdue between 31-60 days	56,070	10,183
Overdue between 61-90 days	73,634	743
Overdue over 90 days	125,584	-
	1,815,260	**767,426**

notes to the financial statements

continued

12 Trade and Other receivables (continued)

In determining the recoverability of a trade receivable the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the relevant year-end. Aside from the major retail customers accounting for the year end trade receivable balance mentioned above, the concentration of credit risk is limited due to the customer base being large and diverse.

13 Cash and Cash equivalents

	2018 £	2017 £
Cash and cash equivalents	6,031,936	26,926,389

At 31 December 2018, the Group had an available £600,000 credit card facility.

14 Trade and Other payables

	2018 £	2017 £
Trade payables	1,794,803	1,591,520
Non trade-payables and accrued expenses	1,691,425	2,275,299
Deferred revenue	538,447	521,549
Taxes and social security payable	537,118	159,651
	4,561,793	**4,548,019**

All trade and other payables are short-term. The directors consider that the carrying amount of trade and other payables approximates to their fair value. Deferred revenue represents contract liabilities to deliver goods to customers where consideration has been received prior to the year end date. The opening balance of deferred revenue was fully recognised during the 2018 financial year.

15 Provisions

	Refunds £	Warranty £	Sales Return £	Total £
Balance at 1 January 2017	**560,683**	**-**	**154,414**	**715,097**
Provisions made during the year	4,118,714	-	-	4,118,714
Provisions used during the year	(3,815,835)	-	(154,414)	(3,970,249)
Unused amounts reversing in the year	(36,860)	-	-	(36,860)
Balance at 31 December 2017	**826,702**	**-**	**-**	**826,702**
Provisions made during the year	11,647,815	163,832	-	11,811,647
Provisions used during the year	(11,620,290)	-	-	(11,620,290)
Unused amounts reversing in the year	(62,110)	-	-	(62,110)
Balance at 31 December 2018	**792,117**	**163,832**	**-**	**955,949**

A refund provision is required as the Group provides certain products to customers under a 100-day trial period.

During this period the customer is entitled to return goods for a full refund. The provision is calculated by reference to the rate of returns experienced by the Group in preceding periods and the level of sales subject to the relevant trial periods of each product at the year end. An analysis of the rate of return over historical periods does not indicate a significant variation in the rate of refunds provided to customers and accordingly, whilst there is a degree of estimation in the calculation of this provision, any reasonable sensitivity analysis in the rate applied to sales at the year end would not result in a material impact (as demonstrated in note 2.20).

notes to the financial statements
continued

15 Provisions (continued)

A warranty provision is required as the Group provides certain products to customers with a 10-year warranty period.

During this period the customer is entitled to claim under warranty a replacement product. The provision is calculated by reference to the rate of successful claims experienced by the Group in preceding periods and applying a projected distribution of the claims across the 10-year warranty period. Whilst there is a degree of estimation in the calculation of this provision, any reasonable sensitivity analysis in the rate applied to claims at the year end would not result in a material impact (as demonstrated in note 2.20).

16 Share Capital

Allotted, issued and fully paid:

	Number	Nominal Value £	31 December 2018 £	31 December 2017 £
Ordinary Shares	139,735,160	£0.001	139,735	138,631
Total			**139,735**	**138,631**

The table below summarises the movements in number of shares at the beginning and end of the period

	Ordinary Shares
Share Capital 31 December 2017	**138,631,020**
Nominal Value £	£0.001
Value of Share Capital £	138,631
Summary of Movements	
Exercise of share options over ordinary shares	1,104,141
Share capital 31 December 2018	**139,735,161**
Nominal Value £	£0.001
Value of Share capital £	£139,735

The holders of Ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

During 2018, 1,104,141 share options were exercised bringing the total share capital of the Company to 139,735,161 at 31 December 2018.

17 Share based payments

The Group recognised a charge of £0.3m (2017: £1.8m) related to share-based payments during the year to 31 December 2018, all of which relates to equity-settled schemes.

The Company issues equity-settled share-based payments to certain employees, whereby employees render services in exchange for shares or rights over shares of the parent company. Equity-settled awards are measured at fair value at the date of grant. The fair value is calculated using an appropriate option pricing model and is expensed to the Statement of Profit and Loss and other comprehensive income on a straight-line basis over the vesting period after allowing for an estimate of shares that will ultimately vest.

notes to the financial statements
continued

17 Share based payments (Continued)

The Company operates an HMRC approved executive management incentive plan (EMI). The vesting conditions are based on length of service with typically 25% of the options vesting on or after the 12-month anniversary of the employee's start after which vesting occurs in equal monthly tranches so that options vest in full on the 48-month anniversary of the employee's start date. All options are equity settled.

The terms and conditions of the grants are as follows:

Grant Date	Number of Contracts	Number of Options	Exercise Price	Performance Conditions	Expiry Date
16/01/2017	13	14,017,897	£0.001	Length of service	16/01/2027
16/01/2017	3	4,653,841	£0.001	Performance Based	16/01/2027
23/01/2017	3	56,626	£0.001	Length of service	23/01/2027
25/01/2017	22	1,289,236	£0.001	Length of service	25/01/2027
20/02/2017	1	18,825	£0.001	Length of service	20/02/2027
10/04/2017	1	251,000	£0.001	Length of service	10/04/2027

The Company operates an unapproved executive incentive plan. The vesting conditions for grants made on 12 May 2017 and during 2018 are based on length of service with 100% of the options vesting on 36-month anniversary of the employee's start date. The remaining options have vesting conditions based on length of service with typically 25% of the options vesting on or after the 12-month anniversary of the employee's start date after which vesting occurs in equal monthly tranches so that options vest in full on the 48-month anniversary of the employee's start date. All options are equity settled.

The terms and conditions of the grants are as follows:

Grant Date	Number of Contracts	Number of Options	Exercise Price	Performance Conditions	Expiry Date
13/07/2015	1	132,905	£0.001	Length of service	13/07/2025
01/01/2016	1	49,447	£0.001	Length of service	01/01/2026
01/02/2016	1	224,269	£0.001	Length of service	01/02/2026
26/01/2016	1	12,550	£0.001	Length of service	26/01/2026
12/05/2017	6	991,798	£1.012	Length of service	12/05/2027
12/10/2017	1	23,939	£0.001	Length of service	12/10/2027
20/10/2017	1	23,833	£0.001	Length of service	20/10/2027
16/01/2018	1	20,000	£1.01	Length of service	16/01/2028
17/01/2018	1	100,000	£1.01	Length of service	17/01/2028
02/02/2018	1	15,000	£1.01	Length of service	02/02/2028
05/02/2018	1	87,500	£1.01	Length of service	05/02/2028
11/02/2018	1	20,000	£1.01	Length of service	11/02/2028

notes to the financial statements

continued

17 Share based payments (Continued)

The number and weighted average exercise prices of share options are as follows:

	Weighted Average Exercise Price £	Number of Options
Outstanding at beginning of year	**£0.519**	**5,642,703**
Granted during the year	£1.010	242,500
Forfeited during the year	£0.768	(1,577,909)
Exercised during the year	£0.001	(1,104,141)
Lapsed during the year	-	-
Outstanding at the end of the year	**£0.613**	**3,203,153**
Exercisable at the end of the year	**£0.001**	**836,875**

All options exercised during the year were options over Ordinary shares.

The weighted average share price at the date of exercise of share options exercised during the year was 80.03p (2017: 103.94p)

The options outstanding at the end of the year have an exercise price in the range of £0.001 to £1.012 and a weighted average contractual life of 10 years.

The fair value of employee share options is measured using a Black-scholes model. Measurement inputs and assumptions are as follows:

	Award 1 16/01/17 £	Award 2 16/01/17 £	Award 3 23/01/17 £	Award 4 25/01/17 £	Award 5 26/01/17 £	Award 6 20/02/17 £
Share class	**Ord C**	**Ord**	**Ord**	**Ord**	**Ord**	**Ord**
Fair Value	£0.06	£0.10	£0.10	£0.10	£0.10	£0.10
Exercise Price	£0.001	£0.001	£0.001	£0.001	£0.001	£0.001
Expected volatility *	103%	103%	103%	103%	103%	102%
Option Life	10yrs	10yrs	10yrs	10yrs	10yrs	10yrs
Risk free interest rate	0.200%	0.200%	0.235%	0.276%	0.300%	0.148%

	Award 7 12/05/17 £	Award 8 16/01/18 £	Award 9 17/01/18 £	Award 10 02/02/18 £	Award 11 05/02/18 £	Award 12 11/02/18 £
Share class	**Ord**	**Ord**	**Ord**	**Ord**	**Ord**	**Ord**
Fair Value	£0.29	£0.43	£0.43	£0.43	£0.43	£0.43
Exercise Price	£0.001	£0.001	£0.001	£0.001	£0.001	£0.001
Expected volatility *	55%	77%	77%	77%	77%	77%
Option Life	10yrs	10yrs	10yrs	10yrs	10yrs	10yrs
Risk free interest rate	1.000%	1.000%	1.000%	1.000%	1.000%	1.000%

notes to the financial statements
continued

17 Share based payments (Continued)

* Expected volatility is measured at the standard deviation of expected share price movements and based on a review of volatility used by listed companies of comparable industry sector and years of establishment.

18 Earnings per share

The basic earnings per share is calculated by dividing the net profit attributable to equity holders of the Group by the weighted average number of ordinary shares in issue during the year.

	2018	2017
Weighted average shares in issue	139,087,779	117,336,860
Loss attributable to the owners of the parent company	(20,106,411)	(18,977,670)
Basic earnings/(loss) per share (pence)	(14.46)	(16.17)
Diluted earnings/(loss) per share (pence)	(14.46)	(16.17)

For the periods presented the weighted average number of shares used for calculating the diluted loss per share are identical to those for the basic loss per share. This is because the outstanding share options would have the effect of reducing the loss per share and would not be dilutive under IAS 33.

At 31 December 2018, options outstanding amounted to 3,203,153. Given the loss for the year of £20,106,411 (2017 loss: £18,977,670) these options are anti-dilutive.

19 Financial Instruments

Categories of financial instruments:

	2018 £	2017 £
Financial assets at amortised cost		
Cash and cash equivalents, trade receivables and other receivables	8,971,308	30,302,749
Financial liabilities at amortised cost		
Trade payables, other payables and provisions	(5,517,741)	(5,374,722)

notes to the financial statements
continued

19 Financial Instruments (Continued)

'Financial assets held at amortised cost' includes trade receivbles, other receivables and cash and cash equivalents and excludes prepayments and inventories. Included in 'Financial liabilities at amortised cost' are trade payables, accruals and other payables. The carrying value of financial assets and liabilities approximates their fair value.

Risk management
The Company seeks to reduce exposures to capital risk, liquidity risk, credit risk and foreign currency risk, to ensure liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. The Group does not engage in speculative trading in financial instruments and transacts only in relation to underlying business requirements. The Group's treasury policies and procedures are periodically reviewed and approved by the Board.

Capital risk
The Group's objectives when managing capital (defined as cash and cash equivalents plus equity attributable to owners of the parent) are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders through an appropriate amount of equity funding, while maintaining a strong credit rating and sufficient headroom. The Group makes adjustments to its capital structure in light of changes to economic conditions and the Group's strategic objectives.

Credit risk
Credit risk is the risk that a counterparty may default on its obligation to the Group in relation to lending, hedging, settlement and other financial activities. The Group's principal financial assets are trade and other receivables, bank balances, and cash in hand. The Group's credit risk is primarily attributable to its trade and other receivables. The amounts included in the Statement of Financial Position are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of cash flows. The Group has a low retail credit risk due to transactions being principally of high volume, low value and short maturity. Whilst a significant proportion of trade receivables is with a few customers the Group assessed the risk of default as low due to the nature of these customers to be large well established retailers with which the Group has a good relationship. The credit risk on liquid funds is considered to be low, as the counterparties are all major banks with high credit ratings from all the key ratings agencies.

The ageing of trade receivables at the balance sheet date was:

	2018 **£**	**2017** **£**
Not overdue	1,177,697	378,260
Overdue between 0-30 days	382,274	378,240
Overdue between 31-60 days	56,070	10,183
Overdue between 61-90 days	73,634	743
Overdue over 90 days	125,584	-
	1,815,260	**767,426**

Liquidity risk
Liquidity risk is the risk that the group will not be able to meet its financial obligations as they fall due.

The Group manages its exposure to liquidity risk by continuously monitoring short- and long-term forecasts and actual cash flows and ensuring it has the necessary banking and reserve borrowing facilities available to meet the requirements of the business.

notes to the financial statements
continued

19 Financial Instruments (Continued)

Foreign currency risk
The Group operates internationally and is therefore exposed to foreign currency transactions risk, primarily on sales denominated in US dollars and Euros. The Group's presentational currency is pounds sterling, therefore the Group is also exposed to foreign currency translation risks due to movements in foreign exchange rates on the translation of non-sterling assets and liabilities.

	Sterling £	Euro £	US Dollar £	Other £	Total £
Balance Sheet exposure					
Cash and cash equivalents	4,929,600	868,014	71,603	162,719	6,031,936
Trade receivables	1,794,122	21,138	-	-	1,815,260
Other receivables	753,010	337,754	6,838	26,510	1,124,112
Trade payables	(1,471,111)	(300,885)	(22,807)	-	(1,794,803)
Other payables	(1,893,587)	(607,386)	(85,225)	(180,792)	(2,766,990)
Provisions	(832,044)	(116,352)	(7,552)	-	(955,949)
Total	**3,279,989**	**202,284**	**(37,143)**	**8,437**	**3,453,567**

Foreign currency sensitivity
The Group's principal financial instrument foreign currency exposures are to US dollars and EUROs. The table below illustrates the hypothetical sensitivity of the Group's reported profit before tax and closing equity to a 10% increase and decrease in the value of each of these currencies relative to pounds sterling at the reporting date, assuming all other variables remain unchanged. The sensitivity rate of 10% is deemed to represent a reasonably possible change based on historic exchange rate volatility.

The following assumptions were made in calculating the sensitivity analysis:

- All sensitivities affecting the Statement of Profit and Loss and Other Comprehensive Income also impact equity
- Translation of foreign subsidiaries and operations into the Group's presentation currency has been excluded from the sensitivity analysis

	2018 £	2017 £
Sterling strengthen by 10% against		
US Dollar	(5,504)	(27,490)
Euro	161,161	(106,714)
Other	(136,256)	(52,112)
Sterling weaken by 10% against		
US Dollar	1,703	27,490
Euro	177,609	106,714
Other	(169,410)	52,112

A 10% percent strengthening of these currencies against the pound sterling at 31 December 2018 would have decreased profit or loss by 0.05%. This calculation assumes that the change occurred at the balance sheet date and had been applied to risk exposures existing at that date.

notes to the financial statements
continued

20 Contingencies

There were no contingent liabilities to be disclosed.

21 Related Parties

Key management compensation (considered to be the Directors of eve Sleep PLC) disclosures can be found in Note 6 and on pages 40 to 41 of the Director's remuneration report.

22 Investments

The company has the following investments in subsidiaries:

	Principal place of business/ Registered office address	Registered Number	Type of share	Ownership 2017	Ownership 2016
Company:					
eve sleep Inc	185 W. Broadway, Suite 101, PO Box 1150, Jackson, USA	EIN 47-4164566	Ordinary	100%	100%
eve sleep SASU	5 Rue Des Suisses, 75014, Paris	823397419 R.C.S Paris	Ordinary	100%	100%

All operating subsidiaries are included in the consolidated financial statements, based on percentage of voting rights held. No subsidiaries have non-controlling interests that are material to the consolidated financial statements

23 Commitments

There were no commitments in the year.

24 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2018 £	2017 £
Less than one year	459,536	-
Between one and five years	-	-
More than five years	-	-
	459,536	**-**

The Group leases its office headquarters at 128 Albert Street, London, NW1 7NE. The non-cancellable operating lease rental disclosed above relates wholly to these office headquarters.

During the year £767,480 was recognised as an expense in the income statement in respect of operating leases.

notes to the financial statements
continued

25 Change in significant accounting policies

The Group has applied IFRS 15 using the retrospective with cumulative effect method - i.e. by recognising the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of equity at 1 January 2018. Therefore, the comparative information has not been restated and continues to be reported under IAS 18 and IAS 11. There has been no quantitive impact of adopting IFRS 15 on the Group's financial statements for the year ending 31 December 2018.

The Group has adopted IFRS 9 with a date of initial application of 1 January 2018. The requirements of IFRS 9 represent a significant change from IAS 39 Financial Instruments: Recognition and Measurement. Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively. There has been no quantitative impact of adopting IFRS 9 on the Group's financial statements for the year ending 31 December 2018, as follows:

- Financial assets classified as Loans and Receivables under IAS 39 are held at the same valuation under IFRS 9 at Amortised Cost;
- Financial liabilities classified as Other Financial Liabilities under IAS 39 are held at the same valuation under IFRS 9 as Other Financial liabilities

26 Subsequent events

Since the end of the Accounts Period, the Company has undertaken the following significant events:

On 11 February 2019, the Company completed a placing of 120,317,323 new ordinary shares of 0.1 pence each ("Ordinary Shares") in the share capital of the Company (the "Placing Shares") at a price of 10 pence per Placing Share (the "Placing Price") to raise approximately £11.7m net of expenses (the "Placing"), from existing and new investors. In addition, Channel Four, which provides advertising services to the Company and is an existing Shareholder, has agreed that £0.9m of future advertising spend by the Company with Channel Four will, when payable, be satisfied by the issue of new Ordinary Shares at the Placing Price over a period of up to twenty-four months from Admission.

In addition, it is proposed that share option plans with a grant date post-IPO (excluding those grants made in October 2017) will be cancelled and replaced with a new share option plan. It is proposed that grants from this pool will be granted on the following basis:

(i) nominal exercise price of £0.001 per ordinary share
(ii) vesting monthly from the date of grant over a 3 year period

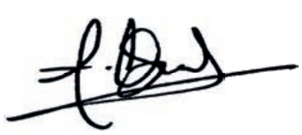
Following the year end, it was agreed by mutual consent that Abid Ismail, Chief Financial Officer of the Group, would step down as a Director of the Company. Abid has agreed to stay on until Summer 2019 to effect a seamless transition.

company balance sheet

at 31 December 2018

	Note	2018 £	2017 £
Non-current assets			
Property, Plant and equipment	3	-	36,458
Intangible assets	4	669,742	378,538
Investments	5	1,669	1,669
		671,411	**416,665**
Current assets			
Inventories	6	870,011	589,344
Trade and other receivables	7	5,499,057	4,837,014
Current tax receivable		193,192	-
Cash and cash equivalents	8	5,055,952	26,210,595
		11,618,213	**31,636,953**
Total assets		**12,289,623**	**32,053,618**
Current liabilities			
Trade and other payables	9	4,349,059	4,311,212
Provisions	10	845,824	687,127
Total liabilities		**5,194,883**	**4,998,339**
Net assets		**7,094,740**	**27,055,279**
Equity attributable to equity holders of the parent			
Share capital	11	139,735	138,631
Share premium		36,716,371	36,716,371
Share-based payment reserve		250,073	138,794
Retained earnings		(30,011,439)	(9,938,516)
Total Equity		**7,094,740**	**27,055,280**

Notes 1-17 form part of the historical financial information shown above.
These financial statements were approved by the board of directors on eve Sleep PLC and were signed on its behalf by:



Abid Ismail
Director
11 March 2019
Company registered number: 09261636

company cash flow

for the year ended 31 December 2018

	2018 £	2017 £
Cash flows from operating activities		
Loss for the year	(20,264,926)	(19,043,452)
IPO-related expenditure	-	2,124,528
Finance income	(49,675)	(25,096)
Taxation	(193,192)	-
Loss before IPO-related expenditure	**(20,507,793)**	**(16,944,020)**
Adjustments for:		
Interest received	49,675	25,096
Amortisation	120,571	7,945
Impairment	39,608	-
Increase in trade and other receivables	(662,043)	(3,832,385)
Increase in inventories	(280,668)	(98,163)
Increase in trade and other payables	37,847	2,258,206
Increase in provisions	158,697	252,073
Share based payment charge	303,281	1,757,204
Foreign exchange losses	-	(5,996)
IPO Related Expenditure	-	(2,124,528)
Net cash outflow from operating activities	**(20,740,825)**	**(18,704,568)**
Cash flows from investing activities		
Acquisition of property, plant and equipment	(3,150)	(36,458)
Development of intangible assets	(411,775)	(378,538)
Net cash outflows from investing activities	**(414,925)**	**(414,996)**
Cash flows from financing activities		
Proceeds from issue of share capital	1,104	40,768,722
Net cash inflows from financing activities	**1,104**	**40,768,722**
Net Cash outflow	**(21,154,643)**	**21,649,158**
Cash at beginning of year	**26,210,595**	**4,561,437**
Movement in cash	(21,154,643)	21,649,158
Cash at end of year	**5,055,952**	**26,210,595**

company changes in equity

for the year ended 31 December 2018

	Share Capital £	Share Premium £	Share-based payment reserve £	Retained Earnings £	Foreign currency translation reserve £	Total Equity £
For the year ended 31 December 2018						
Balance at 1 January 2018	**138,631**	**36,716,371**	**138,794**	**(9,938,516)**	**-**	**27,055,280**
Exercise of options	1,104	-	-	-	-	1,104
Share based payment charge	-	-	303,281	-	-	303,281
Transfer on exercise of options	-	-	(192,003)	192,003	-	-
Transactions with owners	**1,104**	**-**	**111,279**	**192,003**	**-**	**304,385**
Loss for the year	-	-	-	(20,264,926)	-	(20,264,926)
Balance at 31 December 2018	**139,735**	**36,716,371**	**250,073**	**(30,011,440)**	**-**	**7,094,739**
For the year ended 31 December 2017						
Balance at 1 January 2017	**316**	**16,124,928**	**-**	**(12,552,437)**	**5,996**	**3,578,803**
Issue of shares	38,767	40,698,396	-	-	-	40,737,163
Bonus share issue	85,948	(85,948)	-	-	-	-
Share premium cancellation	-	(20,038,965)	-	20,038,965	-	-
Exercise of options	13,600	17,960	-	-	-	31,560
Share based payment charge	-	-	1,757,204	-	-	1,757,204
Transfer on exercise of options	-	-	(1,618,410)	1,618,410	-	-
Transactions with owners	**138,315**	**20,591,443**	**138,794**	**21,657,375**	**-**	**42,525,927**
Loss for the year	-	-	-	(19,043,454)	(5,996)	(19,049,450)
Balance at 31 December 2017	**138,631**	**36,716,371**	**138,794**	**(9,938,516)**	**-**	**27,055,280**

notes to the company financial statements

1 Accounting Policies

1.1 Basis of preparation

The Company financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs").

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these Company financial statements.

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 2.20 to the Group financial statements.

1.2 Changes in accounting policy

In these financial statements, the Company has changed its accounting policies in the following areas:

- Financial instruments
- Revenue recognition

The Group has adopted the following IFRSs in these financial statements:

- IFRS 9 Financial Instruments (see note 19)
- IFRS 15 Revenue from Contract with Customers (see note 2.16)

These accounting policies have been applied retrospectively. The impact of transition to these IFRS has not required restatement of the primary statements (see note 25 to the consolidated financial statements).

2 Loss for the year

The Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own Statement of comprehensive income in these financial statements.

The loss after tax of the parent Company for the year was £20,264,926 (2017: £19,043,454 loss).

3 Directors' remuneration

The Company shares the same directors as the Group. Please find Directors' remuneration disclosed in note 6 of the Group financial statements.

notes to the company financial statements
continued

3 Property, plant and equipment

	Plant and equipment £	Fixtures & Fittings £	Total £
Cost			
Balance at 1 January 2017	**7,326**	**3,266**	**10,592**
Acquisitions	-	36,458	36,458
Balance at 31 December 2017	**7,326**	**39,724**	**47,050**
Acquisitions	3,150	-	3,150
Balance at 31 December 2018	**10,476**	**39,724**	**50,200**
Depreciation and Impairment			
Balance at 1 January 2017	**1,831**	**816**	**2,647**
Depreciation charge for the year	5,495	2,450	7,945
Balance at 31 December 2017	**7,326**	**3,266**	**10,592**
Depreciation charge for the year	-	-	-
Impairment charge for the year	3,150	36,458	39,608
Balance at 31 December 2018	**10,476**	**39,724**	**50,200**
Net Book Value			
At 31 December 2017	**-**	**36,458**	**36,458**
At 31 December 2018	**-**	**-**	**-**

4 Intangible Assets

	Development Costs £	Assets under construction £	Total £
Cost			
Balance at 1 January 2017	**-**	**-**	**-**
Acquisitions - internally generated	92,705	-	92,705
Acquisitions - externally generated	190,235	95,598	285,833
Balance at 31 December 2017	**282,940**	**95,598**	**378,538**
Acquisitions - internally generated	-	168,833	168,833
Acquisitions - externally generated	-	242,942	242,942
Transfers	105,030	(105,030)	-
Balance at 31 December 2018	**387,970**	**402,343**	**790,313**
Amortisation and Impairment			
Balance at 1 January 2017	**-**	**-**	**-**
Amortisation and impairment for the year	-	-	-
Balance at 1 January 2018	**-**	**-**	**-**
Amortisation and impairment for the year	120,571	-	120,571
Balance at 31 December 2018	**120,571**	**-**	**120,571**
Net Book Value			
At 31 December 2017	**282,940**	**95,598**	**378,538**
At 31 December 2018	**267,399**	**402,343**	**669,742**

notes to the company financial statements
continued

4 Intangible Assets (continued)

Development costs relate to internal and external costs incurred in respect of the infrastucture of the website platform. Assets under construction at 31 December 2018 relate to internal and external costs incurred for the development of ERP software for internal use expected to go live in 2019.

5 Investments

The company has the following investments in subsidiaries:

	Principal place of business/ Registered office address	Registered Number	Type of share	Ownership 2017	Ownership 2016
Company:					
eve sleep Inc	185 W. Broadway, Suite 101, PO Box 1150, Jackson, USA	EIN 47-4164566	Ordinary	100%	100%
eve sleep SASU	5 Rue Des Suisses, 75014, Paris	823397419 R.C.S Paris	Ordinary	100%	100%

6 Inventories

	2018 £	2017 £
Finished Goods	870,011	589,344

There was no write-down of inventories to net realisable value in the year (2017: £nil). Included within inventories is £551,580 expected to be recovered in more than 12 months from the balance sheet date. This balance of inventory is fully-provided for within in the Company’s slow-moving inventory provision totalling £551,580 (2017: £181,752). Inventory days were 25 days in 2018 (2017: 21 days). Finished goods recognised in cost of sales in the year amounted to £12,924,738.

7 Trade and Other receivables

	2018 £	2017 £
Trade Receivables	1,794,871	760,330
Other receivables	1,001,937	2,417,455
Receivables from subsidiary undertakings	1,027,915	858,533
Other current assets	366,823	-
Prepayments	1,307,511	800,696
	5,499,057	**4,837,014**

As at 31 December 2018, receivables from subsidiary undertakings of £1.0m (2017: £0.9m) have been considered in light of IFRS 9 and expected credit losses arising were not considered material by management and no allowance has been recognised on this basis. The ageing analysis of these receivables is as follows:

	2018 £	2017 £
Less than 12 months	1,027,915	858,533
More than 12 months	-	-
	1,027,915	**858,533**

notes to the company financial statements
continued

7 Trade and Other receivables (Continued)

The average credit period offered on sales of goods during 2018 was 26 days (2017: 34 days). The average days sales outstanding (''DSO'') in 2018 was 88 days (2017: 51 days).

All other trade and other receivables are short-term. The directors consider that the carrying amount of trade receivables approximates to their fair value. All trade and other receivables have been reviewed for indications of impairment.

Trade receivables represent amounts due from wholesale and retail customers.

The Company has not charged interest for late payment of invoices in the current year or prior period.

Allowances against doubtful debts are estimated by reference to irrecoverable amounts based on past default experience. Specific counterparty risk is also considered where an analysis of the counterparty's current financial position indicates a change in credit risk.

Before accepting any significant new customer, the Company uses a variety of credit scoring systems to assess the potential customer's credit quality and to define credit limited for each customer. Limits and scoring attributed to customers are reviewed regularly.

Three major retail customers each accounted for more than 10% of the total balance of trade receivables on 31 December 2018, compared to 2017 where three major retail customer seach accounted for more than 10% of the total balance of trade receivables.

	2018 £	2017 £
Not overdue	1,161,596	371,169
Overdue between 0-30 days	377,985	378,235
Overdue between 31-60 days	56,070	10,183
Overdue between 61-90 days	73,634	743
Overdue over 90 days	125,586	-
	1,794,871	**760,330**

In determining the recoverability of a trade receivable the Company considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the relevant year-end. Aside from the major retail customers accounting for the year end trade receivable balance mentioned above, the concentration of credit risk is limited due to the customer base being large and diverse.

8 Cash and Cash equivalents

	2018 £	2017 £
Cash and cash equivalents per balance sheet	5,055,952	26,210,595

notes to the company financial statements
continued

9 Trade and Other payables

	2018 £	2017 £
Trade payables	1,740,634	1,525,332
Non-trade payables and accrued expenses	1,322,691	2,187,595
Deferred revenue	408,406	438,634
Taxes and social security payable	877,328	159,651
	4,349,059	**4,311,212**

All trade and other payables are short-term. The directors consider that the carrying amount of trade and other payables approximates to their fair value. Deferred revenue represents contract liabilities to deliver goods to customers where consideration has been received prior to the year end date. The opening balance of deferred revenue was fully recognised during the 2018 financial year.

10 Provisions

	Refunds £	Warranty £	Total £
Balance at 1 January 2017	**435,052**	**-**	**435,052**
Provisions made during the year	3,430,454	-	3,430,454
Provisions used during the year	(3,141,519)	-	(3,141,519)
Unused amounts reversing in the year	(36,860)	-	(36,860)
Balance at 31 December 2017	**687,127**	**-**	**687,127**
Provisions made during the year	9,924,452	142,351	10,066,803
Provisions used during the year	(9,844,534)	-	(9,844,534)
Unused amounts reversing in the year	(63,572)	-	(63,572)
Balance at 31 December 2018	**703,473**	**142,351**	**845,824**

A refund provision is required as the Company provides certain products to customers under a 100-day trial period.

During this period the customer is entitled to return goods for a full refund. The provision is calculated by reference to the rate of returns experienced by the Company in preceding periods and the level of sales subject to the relevant trial periods of each product at the year end. An analysis of the rate of return over historical periods does not indicate a significant variation in the rate of refunds provided to customers and accordingly, whilst there is a degree of estimation in the calculation of this provision, any reasonable sensitivity analysis in the rate applied to sales at the year end would not result in a material impact.

A warranty provision is required as the Company provides certain products to customers with a 10-year warranty period.

During this period the customer is entitled to claim under warranty a replacement product. The provision is calculated by reference to the rate of successful claims experienced by the Company in preceding periods and applying a projected distribution of the claims across the 10-year warranty period. Whilst there is a degree of estimation in the calculation of this provision, any reasonable sensitivity analysis in the rate applied to claims at the year end would not result in a material impact.

notes to the company financial statements
continued

11 Share Capital

Allotted, issued and fully paid:

	Number	Nominal Value £	31 December 2018 £	31 December 2017 £
Ordinary Shares	139,735,160	£0.001	139,735	138,631
Total			**139,735**	**138,631**

The table below summarises the movements in number of shares at the beginning and end of the period:

	Ordinary Shares
Share capital 31 December 2017	**138,631,020**
Nominal Value £	£0.001
Value of Share capital £	138,631
Summary of Movements	
Exercise of share options over ordinary shares	1,104,141
Share capital 31 December 2018	139,735,161
Nominal Value £	£0.001
Value of Share capital £	£139,735

During 2018, 1,104,141 share options were exercised bringing the total share capital of the Company to 139,735,160 at 31 December 2018.

12 Financial Instruments

Categories of financial instruments:

	2018 £	2017 £
Financial Assets		
Cash and cash equivalents, trade receivables and other receivables	7,838,633	29,389,833
Financial Liabilities		
Trade payables, other payables and provisions	(5,493,665)	(4,998,339)

'Financial assets held at amortised cost' include trade receivables, other receivables and cash and cash equivalents and excludes prepayments and inventories. 'Financial liabilities held at amortised cost' include trade payables, accruals and other payables. The carrying value of financial assets and liabilities approximates their fair value.

notes to the company financial statements
continued

12 Financial Instruments (continued)

Risk management
The Company seeks to reduce exposures to capital risk, liquidity risk, credit risk and foreign currency risk, to ensure liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. The Company does not engage in speculative trading in financial instruments and transacts only in relation to underlying business requirements. The Company's treasury policies and procedures are periodically reviewed and approved by the Board.

Capital risk
The Company's objectives when managing capital (defined as cash and cash equivalents plus equity attributable to owners of the parent) are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders through an appropriate amount of equity funding, while maintaining a strong credit rating and sufficient headroom. The Company makes adjustments to its capital structure in light of changes to economic conditions and the Company's strategic objectives.

Credit risk
Credit risk is the risk that a counterparty may default on its obligation to the Company in relation to lending, hedging, settlement and other financial activities. The Company's principal financial assets are trade and other receivables, bank balances, and cash in hand. The Company's credit risk is primarily attributable to its trade and other receivables. The amounts included in the Statement of Financial Position are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of cash flows. The Company has a low retail credit risk due to transactions being principally of high volume, low value and short maturity. Whilst a significant proportion of trade receivables is with a few customers the Company assessed the risk of default as low due to the nature of these customers to be large well established retailers with which the Company has a good relationship. The credit risk on liquid funds is considered to be low, as the counterparties are all major banks with high credit ratings from all the key ratings agencies.

Liquidity risk
Liquidity risk is the risk that the Company will no be able to meet its financial obligations as they fall due.

The Company manages its exposure to liquidity risk by continuously monitoring short- and long-term forecasts and actual cash flows and ensuring it has the necessary banking and reserve borrowing facilities available to meet the requirements of the business.

Foreign currency risk
The Company operates internationally and is therefore exposed to foreign currency transactions risk, primarily on sales denominated in Euros.

Foreign currency sensitivity
The Company's principal financial instrument foreign currency exposures is to EURO's. The table below illustrates the hypothetical sensitivity of the Company's reported profit before tax and closing equity to a 10% increase and decrease in the value of each of these currencies relative to pounds sterling at the reporting date, assuming all other variables remain unchanged. The sensitivity rate of 10% is deemed to represent a reasonably possible change based on historic exchange rate volatility.j

notes to the company financial statements
continued

12 Financial Instruments (continued)

The following assumptions were made in calculating the sensitivity analysis:

- All sensitivities affecting the Statement of Total Comprehensive Income also impact equity
- Translation of foreign subsidiaries and operations into the Group's presentation currency has been excluded from the sensitivity analysis

	2018 £	2017 £
Sterling strengthen by 10% against		
US Dollar	(13,098)	(347)
Euro	(222,770)	(2,974)
Other	(136,256)	-
Sterling weaken by 10% against		
US Dollar	(2,007)	347
Euro	(114,551)	2,974
Other	(169,410)	-

A 10% percent strengthening of these currencies against the pound sterling at 31 December 2018 would have decreased profit or loss by 1.84%. This calculation assumes that the change occurred at the balance sheet date and had been applied to risk exposures existing at that date.

13 Related Parties

Key management compensation (considered to be the Directors of eve Sleep PLC) disclosures can be found in Note 6 of the Group accounts and on pages 40 to 41 of the Director's report.

14 Commitments

There were no commitments in the year.

15 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2018 £	2017 £
Less than one year	459,536	-
Between one and five years	-	-
More than five years	-	-
	459,536	**-**

The Group leases its office headquarters at 128 Albert Street, London, NW1 7NE. The non-cancellable operating lease rental disclosed above relates wholly to these office headquarters.

During the year £767,480 was recognised as an expense in the income statement in respect of operating leases.

notes to the company financial statements
continued

16 Change in significant accounting policies

The Company has applied IFRS 15 using the retrospective with cumulative effect method - i.e. by recognising the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of equity at 1 January 2018. Therefore, the comparative information has not been restated and continues to be reported under IAS 18 and IAS 11. There has been no quantitive impact of adopting IFRS 15 on the Company's financial statements for the year ending 31 December 2018.

The Company has adopted IFRS 9 with a date of initial application of 1 January 2018. The requirements of IFRS 9 represent a significant change from IAS 39 Financial Instruments: Recognition and Measurement. Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively. There has been no quantitive impact of adopting IFRS 15 on the Company's financial statements for the year ending 31 December 2018, as follows:

- Financial assets classified as Loans and Receivables under IAS 39 are held at the same valuation under IFRS 15 at Amortised Cost;
- Financial liabilities classified as Other Financial Liabilities under IAS 39 are held at the same valuation under IFRS 15 as Other Financial liabilities

17 Subsequent events

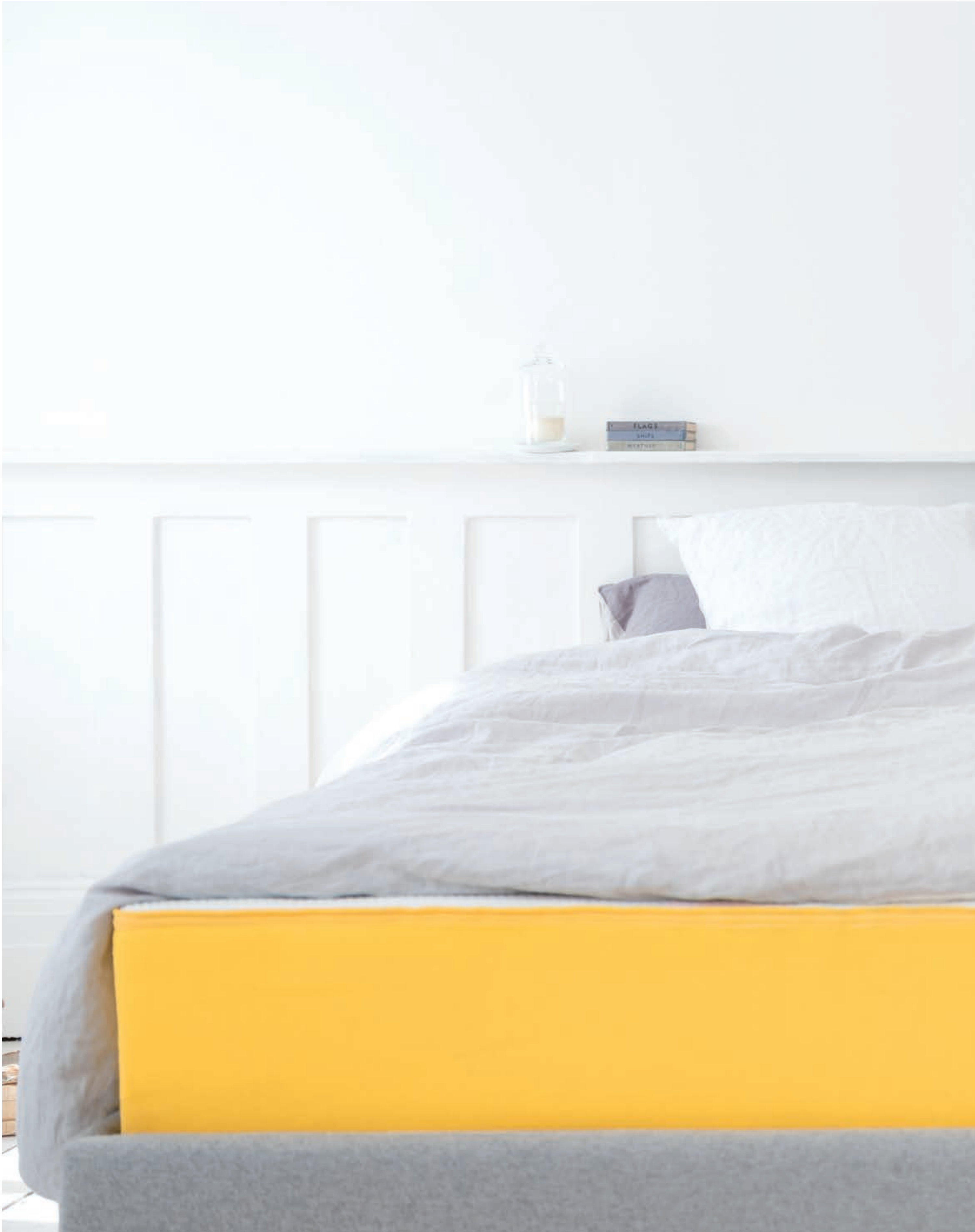
Since the end of the Accounts Period, the Company has undertaken the following significant events:

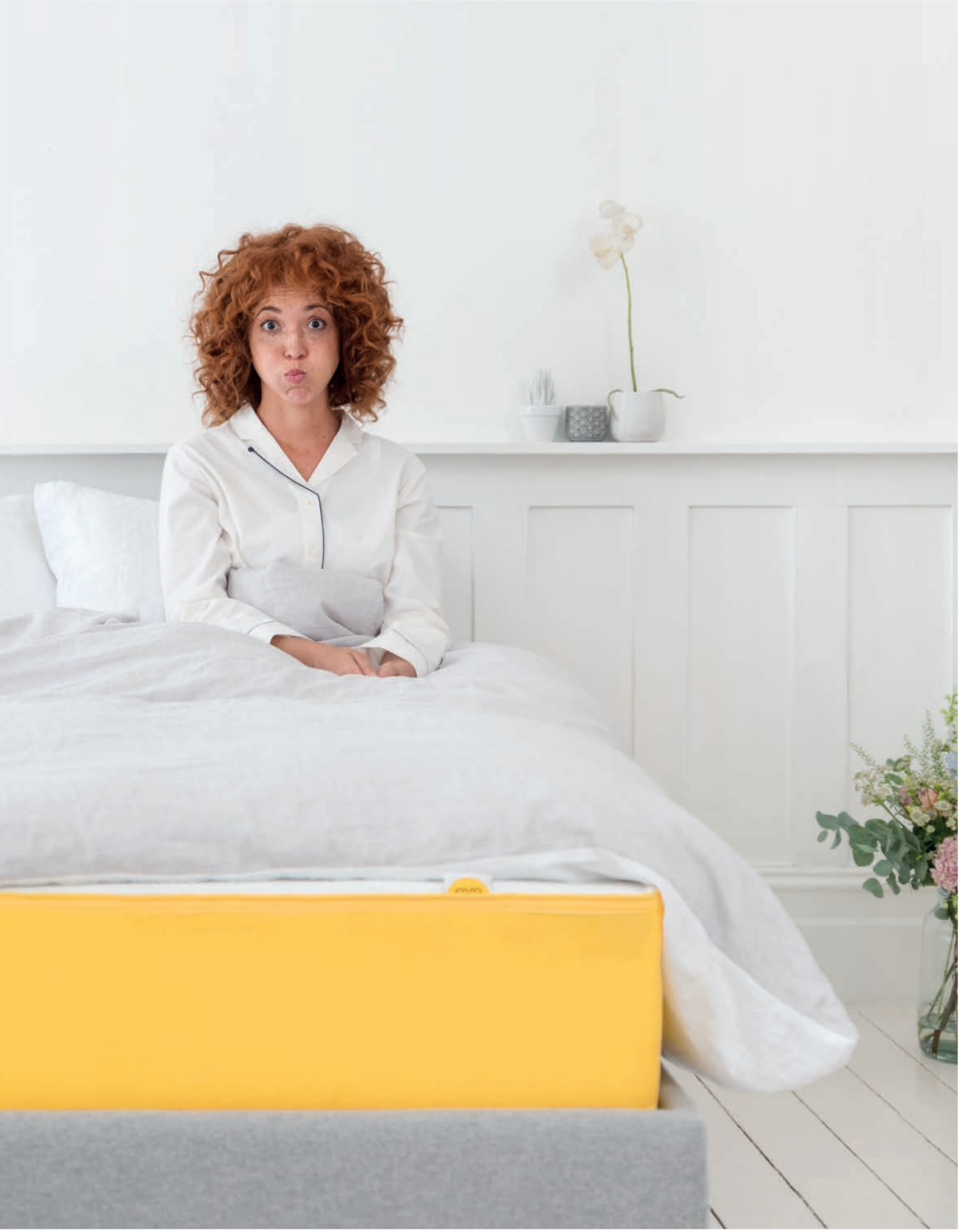
On 11 February 2019, the Company completed a placing of 120,317,323 new ordinary shares of 0.1 pence each ("Ordinary Shares") in the share capital of the Company (the "Placing Shares") at a price of 10 pence per Placing Share (the "Placing Price") to raise approximately £11.7m net of expenses (the "Placing"), from existing and new investors. In addition, Channel Four, which provides advertising services to the Company and is an existing Shareholder, has agreed that £0.9m of future advertising spend by the Company with Channel Four will, when payable, be satisfied by the issue of new Ordinary Shares at the Placing Price over a period of up to twenty-four months from Admission.

In addition, it is proposed that share option plans with a grant date post-IPO (excluding those grants made in October 2017) will be cancelled and replaced with a new share option plan. It is proposed that grants from this pool will be granted on the following basis:

(i) nominal exercise price of £0.001 per ordinary share
(ii) vesting monthly from the date of grant over a 3 year period

Following the year end, it was agreed by mutual consent that Abid Ismail, Chief Financial Officer of the Group, would step down as a Director of the Company. Abid has agreed to stay on until Summer 2019 to effect a seamless transition.





every great day starts the night before

eve