DISRUPT
THE INDUSTRY

CREATE EXCITING
EXPERIENCES

GROW
INTERNATIONALLY

SUPPORT
CHARITIES

CREATE A BETTER WORLD OF LOTTERY

ANNUAL REPORT 2016

ZEAL

ZEAL Network SE* and its consolidated companies** specialise in the area of online lottery. Our service offering consists primarily of the highly profitable consumer facing lottery-based games business and the provision of business to business lottery solutions. Disruption of the online lottery market through innovation is a core objective of the Group. A proven track record in development of online technology and distribution channels, optimum utilisation of our bespoke hedging structure and the benefits of gradual market deregulation have enabled us to retain a leading position in the market. Internationalisation of our product offering is the key platform on which ZEAL aims to continue expanding.

** 'ZEAL Network' or 'the Company'*
*** 'ZEAL Group' or 'the Group'*

STRONG PERFORMANCE IN 2016

+4% billings
(€280m)

+27% revenue
(€113m) statutory

EXECUTIVE REVIEW

DEAR SHAREHOLDERS

2016 was another successful year for the Group. Our consumer facing secondary lottery betting business (B2C) performed strongly, benefitting from an enhanced product portfolio, effective marketing investment and a higher level of spend. Our Business-to-Business/Business-to-Government (B2B/B2G) segment is progressing as planned with the development of a number of strategic alliances, principally with organisations in the charity sector. Successful applications for licences in Norway and the Netherlands have laid excellent foundations for growth, along with a strong pipeline. Our strategic arm, ZEAL Investments, was launched in late 2016 and secured its first investment – The Free Postcode Lottery Limited (FPL).

STRONG FINANCIAL PERFORMANCE

Statutory results

ZEAL reports a 'Total Operating Performance'[1] (TOP) for 2016 of €139.6m compared to the prior year of €141.0m. The slight decrease in TOP was primarily due to a large jackpot pay-out of €37.0m in May 2016, which was partially hedged through a special insurance policy, resulting in a net impact on TOP of €17.0m. This was partly offset by increased revenue generated from eight newly introduced Instant Win Games and increased levels of spend from our customer base. The pay-out ratio for the current year was 59% (2015: 66%), however the historical cumulative pay-out ratio remained at 50%, in line with the statistical average.

The Group generated consolidated statutory EBIT of €38.0m, representing a decrease of €4.9m compared to last year (2015: €42.9m). The decrease was driven by a reduction in TOP, an increase in marketing investment and acquisition costs.

At year end the Group had cash and cash equivalents of €114.7m (2015: €107.7m) and the Group's balance sheet position remains strong, despite dividend distributions of €23.5m during 2016. Cash flow from operating activities was €33.7m (2015: €27.3m) an increase of €6.4m on the prior year.

GROWTH

>>WE ARE INVESTING IN NEW PRODUCTS AND MARKETS.<<

Helmut Becker, CEO

Normalised results

The primary key performance indicators used by the Group to assess performance are billings, normalised revenue and normalised EBIT. Billings, defined as all stakes from customers (including brokerage stakes) net of free bets, totalled €280m, representing a 4% increase from 2015 (€269m). Normalised revenue for 2016 amounted to €145.5m, representing an increase of €4.3m compared to 2015. This was driven by

[1]TOP is the sum of Revenue and Other Operating Income as disclosed in the Consolidated Income Statement.

increased customer spend compared to the prior year, intensified marketing activities and the launch of new Instant Win Games. As a result of the growth in normalised revenue, normalised EBIT increased from €47.1m in 2015 to €50.8m in 2016.

TECH

>>WE ARE TRAINING OUR INNOVATION MUSCLE.<<

Susan Standiford, CTO

2016 saw the Group deliver continued improvement in average billings per user (ABPU) €58.03, up 6% on last year.

This was driven by an increased product portfolio, and an enhanced user experience. Average Monthly Active Users (MAU), remained broadly in line with last year at 375k (2015: 379k). The Group saw an improving trend in MAU through the year, boosted by increased investment in marketing and favourable jackpot situation. Much of the increased marketing investment took place in the latter part of 2016. Early results from this investment have been positive, with December MAU 16% higher year on year at 476k. The Group expects a continuation of this trend into 2017.

Further details of the Group's statutory and normalised performance have been included in the business review and statutory section and financial review section.

GEONOMICS GLOBAL GAMES LIMITED (GGGL) AND GEO24 UK LIMITED (GEO24)

In quarter one of 2016, ZEAL acquired the remaining shares in GGGL and Geo24, to obtain 100% ownership. The objective of the acquisition was to secure the software development team and the expertise of the employees from both entities. A charge of €1.6m relating to a write-off of the amounts drawn on the convertible loan facility and a loss on the total acquisition of €1.3m has been recorded. Since the acquisition, the new team has updated our existing platforms, which are the driving force behind our new charity sector product offering.

CUTTING EDGE INFORMATION TECHNOLOGY

Both of our operating segments are highly competitive and are backed by our leading edge product engineering expertise and state-of-the-art online technology. During 2016, we further enhanced our products, software platforms, services and hardware infrastructure. We also added key talent and capabilities to ZEAL and the core technology teams.

2016 saw the deployment of a new and agile webshop, which had a positive reaction from our customers and improved our product offerings and conversions. We invested significantly to ensure our business-to-business platforms are launch-ready for 2017 international rollouts.

PROFIT

>>WE ARE GROWING PROFITABLY WHILE SUPPORTING CHARITIES.<<

Jonas Mattsson, CFO

2016 has also been a year for foundational improvements in technology architecture and product development paired with new marketing strategies and the implementation of new data analytics capabilities. The improvements will fuel our marketing initiatives to help us focus on our key growth initiatives within all Group segments.

2017 will see additional developments and further investments in products, platforms and technologies that will allow the operating business to react quickly and efficiently to consumers and changes in the competitive landscape. Furthermore, the business-to-business platform and products will be launched into several new markets where we have received the required licences.

NEW INVESTMENT ARM UP AND RUNNING

In November 2016, ZEAL launched a new strategic initiative to complement its internal innovation efforts. ZEAL Investments will make early-stage investments in start-up companies that are either developing disruptive new lottery business models, or building products that can be leveraged across proven lottery models. The focus will be on finding the best entrepreneurial teams, as they start to gain traction in strategically interesting areas and providing them with growth capital and support from the Group. In return, ZEAL expects to be in a position to either acquire, partner with, or learn from these companies, whilst targeting a sound financial return.

In December 2016, ZEAL Investments secured a 10% shareholding in its first strategic investment. FPL has turned traditional lottery on its head and is pioneering a truly disruptive new lottery business model. Instead of players paying to play, they get to play for free and the entire model is funded through advertising revenue alone. Using this approach, the already profitable business has grown to more than 300,000 daily active users in the UK and is set to roll out internationally in 2017.

GROWTH OPPORTUNITIES

ZEAL Group's vision is to create a better world of lottery. A world that our customers and business partners deserve. We strongly believe that the worldwide lottery market today performs below its potential and we seek to release this potential by creating exciting and innovative products.

During 2016, the B2C segment benefitted from the successful introduction of eight Instant Win Games, which were well received by customers. This new product offering provides an exciting gaming experience and has led to an increased spend per customer. We have also received a licence in Ireland, where we will go live in March 2017.

During 2016, B2B/B2G activities were primarily in business development phase and we continued to invest in the B2B/B2G platform to ensure a smooth launch into future markets. We made significant headway in the development of our charity lottery partnership, having received a licence to operate in Norway.

In 2017, we will enhance the B2B/B2G activity by expanding on our current successful partnerships with private and state run organisations. We will bring to life the newly inspired mission which centres on creating purpose-driven social lottery experiences that bring people and communities together. To work towards this mission in 2017, we will launch our B2B/B2G activity in the Netherlands and Norway where we recently received licences to operate. We aim to continue the mission by expanding further into new European markets, by partnering with charities.

OUTLOOK FOR 2017

For 2017, we expect consolidated TOP in the range of €130m to €140m with a consolidated EBIT of between €15m and €25m.

The Executive Board has proposed, and the Supervisory Board has approved, a dividend policy under which the Company will pay annual dividends which are expected to amount to a total of at least €1.00 per share in 2017. An announcement of the amount of the dividend, and the record date for entitlement to the dividend, will be made in advance of payment of the dividend.

The Executive Board

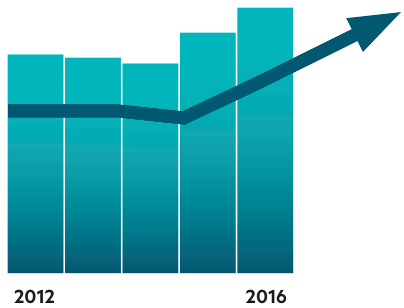
Dr. Helmut Becker	**Jonas Mattsson**	**Susan Standiford**
CEO	CFO	CTO

WE ARE GROWING

Following the announcement of our key performance targets and new strategy, the Group focused on implementing its growth strategy in 2016. This helped generate growth for the second year in a row.

€280m
billings

+4%



HIGHER BILLINGS

For the second year in a row, we succeeded in raising billings – which comprise all stakes from customers (including brokerage stakes) net of free bets. In the reporting period, billings amounted to €280m, representing year-on-year growth of 4%.

We intend to accelerate our growth strategy by increasing our investment in marketing activities in the coming years.

+27%
y-o-y revenue growth

REVENUE GROWTH

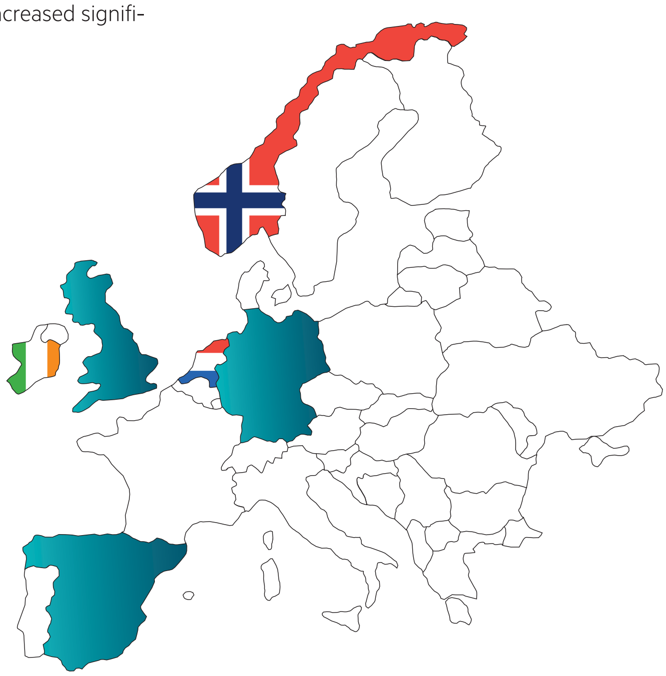
The introduction of eight Instant Win Games, lower jackpot pay-outs and higher spend from our customers, increased year-on-year growth by 27%. Revenue amounted to €113m, an increase of €24m on the prior year.

NEW IDEAS

As part of our growth strategy, we have set ourselves the challenge of being the disruptor in the lottery industry. We believe that this also involves rolling out new product categories for our customers. With the successful launch of Instant Win Games on Tipp24.com we were able to significantly enhance the playing experience of our customers. The growing popularity of Instant Win Games is also reflected in our figures: Two years after rollout, the revenue share of Instant Win Games has increased significantly.

NEW MARKET OPPORTUNITIES

ZEAL applied for and obtained licences from various European countries (Ireland, Netherlands and Norway). These are further steps towards our internationalisation strategy of increasing our global footprint. Further expansion into other countries is also planned.



UX

BETTER USER EXPERIENCE

'Bring the product to where the user is' – that's the main challenge for today's e-commerce as well as providing a modern digital product. Naturally, it also applies to our online lottery offer and was one of the biggest challenges in the design process of our new platform: First, we identified the best aspects of the existing platforms for both desktop and smartphones and then logically integrate them into a new platform with a common code base.

But what really makes a better user experience besides optimally presenting the service on different devices? The responsive revamp of Tipp24.com is based on an optimised information architecture. From the outset, experts from different disciplines worked together on concept and design, using agile methods and intensive prototyping. The usability of our sites now benefits from a clearer and more intuitive interface. Established symbols and larger fonts help users to navigate easily. Larger images create a more emotional experience without compromising ergonomics. Marketing also benefits from a product experience that can be shaped more intensively.

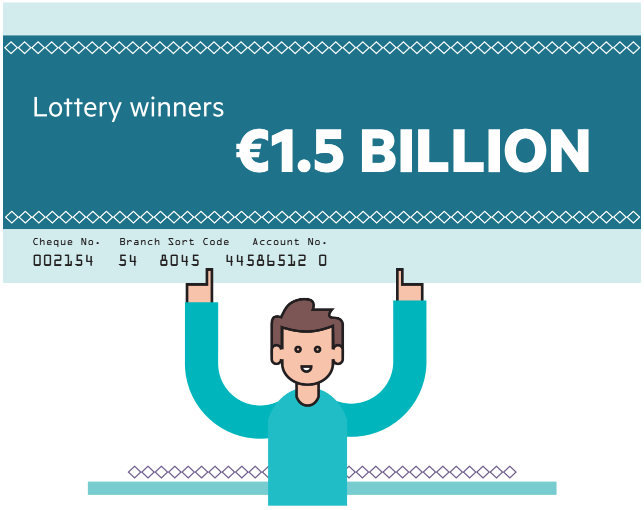
Our new platform can be configured, developed, and serviced more flexibly, thus providing an optimised basis for international localisation and future needs.

GETTING EVEN BETTER

1 CODE BASE

ALL devices
>responsive

Demand for mobile apps is growing: In 2016, Tipp24 Apps for iOS and Android increased their net billings dramatically compared to 2015. On average, Tipp24 App customers are younger than desktop users and more likely to remain active for longer than three months after registration. In 2016, we built state-of-the-art apps that we plan to launch in 2017.



WIN MORE

We know how to make our customers happy: Since inception, Tipp24.com customers have won over 1.5 billion euros which have been distributed among 2.4 million customers. A fantastic example of our reliability.

UNDERSTANDING CUSTOMERS

We continue to build on our strong Tipp24 brand by looking at our customers' needs, their passion for lotteries, and the life changing dream of winning the jackpot. It is therefore our mission and belief that we need to channel our actions towards a user-centered mindset. In particular, this means continuously listening to our customers to truly understand their needs. We rely on four key pillars to learn from our customers:

▶ **Userlab**
We continuously invite our customers to our user lab for user experience tests & focus group interviews.

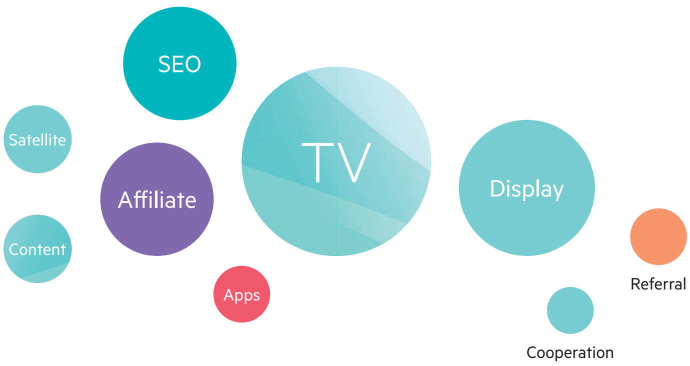
▶ **Onsite feedback**
We receive constant user feedback on our sites which we analyse and look to improve on where possible.

▶ **User survey**
We learn constantly about our customer preferences, needs, and behaviors via user surveys.

▶ **Data tracking**
We constantly track customer behavior, analyse patterns, journeys, and learn.

REACHING OUT + MARKETING MIX

The individual elements of our marketing mix are carefully coordinated. As a result of our growth strategy and the changes in the regulatory environment, additional marketing channels have opened up: For the first time, TV commercials were successfully tested on various TV channels and further advertising will be implemented in this segment moving forward. In addition we are able to expand our online marketing mix by the relevant tools display and content marketing.



€15m
marketing investment

»For ONCE, the digital channel is essential. Working with Ventura24 has been key to us and helped us grow exponentially.«

Patricio Cárceles,
deputy managing director

SPREADING HAPPINESS

WE SUPPORT CHARITIES

ONCE, the Spanish National Organization of the Blind has built up a system of social benefits for the blind and people with other disabilities that has no equivalent elsewhere in the world. Lottery game products are the ONCE's economic driving force and here comes in Ventura24: Since its partner up with ONCE, the innovation of their digital channel has dramatically increased sales margin and charity's ability to generate its key source of funding. Ventura24 manages ONCE's digital sales channel, from product management, to player acquisition and retention.

JUEGOS ONCE

Cruz Roja Española

WE HELP YOUNG ATHLETES

As part of our social responsibility activities we support SportsAid, an organisation that helps young, unfunded athletes to overcome one of their greatest barriers to success: the financial challenge of trying to become Britain's next generation of Olympians, Paralympians and world champions.

2016 marks Team Great Britain's triumphant performance at this year's Rio Olympics and Paralympics: Two out of our 50 sponsored athletes saw their hard work pay off and went on to compete in Rio; Sonny Webster (weightlifting) and Giles Moore (football).

Another of our sponsored athletes, Harriet Knowles-Jones (pictured), claimed bronze at the SPAR European Cross Country Championships in Sardinia early 2017. Harriet's successful run helped contribute towards her country winning team gold at the Championships just a few months after she made her debut at the IAAF Diamond League in Lausanne in Switzerland.

SportsAid

»The financial support has been a huge help with travel expenses – I'm living at home and driving into university each day and then to training in the evening. My aim for this season is the Great Edinburgh XC, I think it is going to be a strong field this year so it will be difficult to get amongst the medals, but that's what I'd like to do.«

Harriet Knowles-Jones

WHAT'S NEXT?

During the short to medium term, we want to grow and internationalise in our secondary lottery business, establish B2B/B2G as THE partner for primary lotteries, and explore future growth areas.

$300bn market

+20% since 2011

LOW ONLINE PENETRATION > HIGH POTENTIAL

The global lottery market is massive and continues to grow. Last year, it grew significantly to a market of more than $300bn in sales. The majority of sales are generated through traditional offline sales channels however only 3–5% of the sales are generated through online activities like our service offer to customers. In the twenty first century, e-commerce is fast becoming the preferred option for consumers to transact their daily lives. With the increasing demand in online purchasing paired with a growing lottery market, we see huge potential in gaining a larger market share.

STRATEGY

B2C – INTERNATIONALISE SECONDARY LOTTERY

Part of our growth strategy is to internationalise B2C's highly profitable business model in new markets. In many different markets we see a deregulation process occurring providing us with an opportunity to apply for new licenses to enable us to expand in new territories. Once a new license is received, we will increase our marketing investment to ensure we successfully enter these markets.

B2B/B2G – ROLLOUT IN EUROPE

B2B/B2G's largest revenue driver is Lottovate, which is a digital lottery provider helping to maximise lottery revenue from online products and channels all over the world. B2B/B2G's focus looking forward is to expand in Europe working primarily with charities. During 2016, charity licences were received in Norway and the Netherlands setting an excellent foundation for future growth and licence applications.

NEW: ADDITIONAL BUSINESS MODELS

▶ Start-up investments

In addition to ZEAL's growth ambitions in the existing B2C and B2B/B2G spaces, it has also set up a new investment arm called ZEAL Investments. With this new business initiative, ZEAL aims to stay at the forefront of industry developments by actively participating in the success of new business ideas by investing in early-stage start-ups that are either developing disruptive new lottery business models, or building products that can be leveraged across proven lottery models.

▶ Hedging as a service

During 2016, MyLotto24 developed their internal capabilities by providing a remarkable new offering: a hedging service. The hedging service provides other bookmaking organisations with the ability to hedge large jackpots, safely. The revenue model is similar to the B2C model, only the customer is an organisation transferring risk on a large number of bets rather than an individual buying single bets.

BUSINESS REVIEW AND STRATEGY

BUSINESS MODEL AND STRUCTURE

The Group's operating segments are Business-to-Consumer (B2C) and Business-to-Business/Business-to-Government (B2B/B2G). We have described the composition of the segments in more detail below:

B2C Segment

- B2C's operating results comprise the secondary lottery betting business (secondary lottery), sales of Instant Win Games products, direct costs and an allocation of the shared cost base.

- To aid understanding of the underlying performance of the segment, B2C performance in the segmental disclosure is shown on the basis of expected prize pay-outs. This allows for a like for like comparison of the segment's operating results compared to the previous year. A reconciliation between the operating segment results and consolidated statutory results is included in the segmental disclosure note.

B2B/B2G Segment

The B2B/B2G segment comprises the remainder of the Group's core operating activities including:

- The lottery brokerage business in Spain.
- The international services business for lottery operators including online operation of the lottery games of the Spanish lottery operator ONCE (a national organisation for blind and disabled people).
- The international business that offers digital services to private business partners and state lotteries as well as operating its own licensed lotteries.
- Segmental results presented are attributable to the operating activities of the B2B/B2G segment together with an allocation of shared costs.

We monitor the performance of the B2C segment based on 'normalised' revenue and EBIT (statutory revenue and EBIT adjusted to the statistically expected prize pay-outs) and actual results for the B2B/B2G segment. The disclosures included in the operating segment note (note 3 to the consolidated financial statements) are consistent with our internal reporting and 'normalised' performance is given due prominence in the disclosure as this is the way in which we analyse our business. Included within our note on operating segments is a reconciliation between the segmental results used to assess the lines of business and our consolidated statutory performance where statistically expected pay-outs are replaced with actual cash outflows. Inter-segment transactions are also eliminated as part of this process.

OUR STRATEGY

ZEAL is focused on two main strategic objectives:

- The first strategic objective is to continue to develop the B2C businesses of secondary lottery and Instant Win Games, by acquiring new customers and increasing the product portfolio. Internationalisation of the successful existing product offering is viewed as the key for future growth. The business activities are independently directed and managed by the Directors of the MyLotto24 sub group (being MyLotto24 Limited and its subsidiary companies).
- The second strategic objective is enhancement of our B2B/B2G activity operating under the brands Lottovate, Ventura24 and Lotto Network respectively. Following successful partnerships with private and state run organisations in recent years, we aim to expand into other European markets by using our leading edge technological and marketing expertise. We want to create a new lottery economy that helps organisations develop a social product that truly resonates with people and communities. We want to bring people together.

Strategy is determined independently in the respective business units.

STRATEGY IMPLEMENTATION

- The MyLotto24 sub group billings grew by 5% in 2016 and in the last quarter by 5%. Instant Win Games continued to grow strongly while revenues from draw-based lotteries remained stable. We have received a licence in Ireland, where we will go live in March 2017. Seen as the first step in the wider internationalisation strategy, Ireland represents an excellent opportunity to further grow the business. Additionally, the MyLotto24 sub group updated its user-facing webshop providing a modern e-commerce website for its customers.
- B2B/B2G made significant progress. The first charity lottery licence for Lottovate was issued in the Netherlands. The Group, in conjunction with our charity partner UNICEF also received an operator licence in Norway. During the year, we invested heavily in the B2B/B2G platform and remain on track to enter new markets, consistent with the segment strategy. As predicted, the charity lottery partnership with ONCE generated significant growth and achieved positive EBIT for the Group in 2016. We are committed to delivering continuous growth for our charity partners.

LEGAL AND REGULATORY MATTERS

THE REGULATORY ENVIRONMENT

Successful implementation of the Group's planned growth strategies is heavily dependent on the local regulatory environments in the jurisdictions into which we plan to expand. We have recently noted adoption of clearer and more modern regulation in the online lottery and general gambling sector as well as the first signs of relaxation of barriers to entry into certain markets (primarily in Europe). However, there remain significant regulatory restrictions in many markets. Expansion into these jurisdictions is impeded mainly by restrictions imposed by legislation protecting incumbent monopolies or an unclear or ambiguous regulatory framework.

While the Group cannot control regulatory changes in existing and target markets, there is a possibility of further liberalisation of local gambling legislations and we continue to actively monitor changes to the regulatory environment. Through this close monitoring of regulatory and legislative developments, we are able to adapt quickly and are well placed to capitalise on any such opportunities that may arise.

VARYING LEGAL MARKET SITUATIONS

The development of the legal environment in jurisdictions in which we operate or plan to enter varies greatly:

- In Germany, gambling is governed by the German State Treaty on Games of Chance ('Staatsvertrag zum Glücksspielwesen'), brought into law 2008 and revised 2012. The legislation was found to be in breach of European Union (EU) law and, as such, the legal situation for any potential enforcement of German legislation in Europe remains unclear. Specifically, the European Court of Justice (ECJ) found that the application of the legislation was in contravention of the EU law on the freedom to provide services. While the judgement against the legislation applied to sports betting, it is likely to extend to all games of chance, including lottery. The European Commission continues to carefully monitor the German regulation and may consider the initiation of infringement procedures against Germany. After further rulings of German courts against German authorities and in favour of private gambling operators, the regulator has recently proposed minor changes to the sports betting sector legislation, which in our eyes does not solve the non-compliance of the interstate treaty with EU law. The Group continues to monitor the regulatory developments and carefully reviews outcomes of any directly relevant court cases for precedents. While it remains to be seen whether any prospective changes will silence the European Commission's challenges and prevent it from initiating any formal action against Germany, the Group believes that the current lack of clarity does not negatively impact the ongoing operations or future business.
- In the UK, the regulatory environment remains stable. The Group did not note a significant impact on our business activities despite certain changes observed during the course of 2016. The UK government has now revised the national Gambling Act to improve consumer protection by requiring companies based offshore, but seeking to market gaming products in the UK, to be licensed by the UK Gambling Commission.

  The EU referendum result is not considered a principal risk. Although the future relationship between the UK and EU remains unclear, in all scenarios the Group expects that the impact will be minimal.
- The legal situation in Spain remains unclear. Unequivocal regulations concerning the online brokerage of lotteries – especially product marketing – are not imminent at present. The risk to the legality of our Spanish business is discussed in the risk report.

MARKET MATTERS

JACKPOTS

ZEAL regularly experiences a strong increase in gaming activity when large jackpots are likely, as a result of roll-overs or guaranteed minimum jackpots for special dates or events. Larger gaming volumes often involve increased hedging costs, depending on the product and the size of the jackpot.

CATCH-UP POTENTIAL FOR INTERACTIVE LOTTERIES

The global penetration of lotteries sold through interactive channels represents less than 5% of global lottery markets. This compares to penetration of other markets, which are significantly higher (e.g. bookmakers, banking transactions). We believe that the market development in interactive lotteries has been held back by regulation as well as the lack of competition, which would lead to product innovation and market development. With increased regulatory change, we expect a significant catch-up in the interactive lottery markets in the coming years, which would be a significant growth driver to our business.

NORMALISATION OF RESULTS

NORMALISED RESULTS

In the lotteries on whose results ZEAL Group rely, there are fixed underlying pay-out ratios (ratio of pay-outs to stakes) for ongoing lottery draws. For our main products, this is approximately 50%. The expected pay-out ratio for secondary lotteries is the same as for the primary lotteries.

There may be deviations between the expected pay-out ratio and actual pay-outs made. The difference between the actual pay-out and the expected prize pay-out is referred to as 'normalisation' in this report.

In order to aid understanding of the financial statements and the related earnings position, we disclose the effect of deviations between the expected and actual pay-out ratio by presenting 'normalised' revenue and EBIT. From 1 January 2015, we adjusted the calculation to reflect changes in product mix as certain products have pay-out rates not equal to 50%. This reflects the long-term pay-out expectations for the Group's products.

LARGE JACKPOT PAY-OUTS

Total pay-outs for secondary lotteries in 2016 were €32.6m above the expected pay-out value (in 2015, the comparable figure was €52.2m above the expected pay-out value). This had a corresponding impact on statutory EBIT, partially offset by hedging income. As a result, in 2016 statutory EBIT was €12.9m lower than expected, based on 'normalised' results (2015: €4.3m lower than expected).

Revenue

	01/01–31/12/2016	01/01–31/12/2015
in €k		
Actual	112,935	88,962
Expected[1]	145,515	141,189
Deviations[2]	(32,580)	(52,227)

EBIT

	01/01–31/12/2016	01/01–31/12/2015
in €k		
Actual	37,956	42,859
Expected[1]	50,820	47,135
Deviations[2]	(12,864)	(4,276)

[1] *Actuals adjusted for normalisation effect*
[2] *Difference between actual and expected amounts.*

FINANCIAL REVIEW

The following table details the consolidated statement of operations of ZEAL Group for the financial year ended 31 December:

in €k	01/01–31/12/2016	01/01–31/12/2015	Change %
Revenue	112,935	88,962	27
Other operating income	26,703	52,024	(49)
Total Operating Performance (TOP)	**139,638**	**140,986**	**(1)**
Personnel expenses	(26,705)	(25,434)	5
Exchange rate differences	(1,304)	1,433	(191)
Other operating expenses	(70,405)	(66,878)	5
Marketing expenses	(14,830)	(9,958)	49
Direct cost of operations	(33,909)	(31,362)	8
Other costs of operations	(21,666)	(25,558)	(15)
EBITDA	**41,224**	**50,107**	**(18)**
Amortisation and depreciation	(2,166)	(7,153)	(70)
Gain/(Loss) on liquidation of subsidiary	238	(95)	(351)
Loss on acquisition	(1,340)	–	–
EBIT	**37,956**	**42,859**	**(11)**
Financial result	(1,445)	(23,255)	(94)
Profit before taxes	**36,511**	**19,604**	**86**
Income taxes	(10,560)	(18,258)	(42)
Profit for the year	**25,951**	**1,346**	**1,828**

REVENUE AND TOTAL OPERATING PERFORMANCE

Consolidated revenue for the financial year 2016 amounted to €112,935k, representing an increase of €23,973k compared to 2015. This was driven by lower jackpot pay-outs year on year, increased revenue from eight newly introduced Instant Win Games and increased levels of spend from our customer base.

TOP for the financial year 2016 amounted to €139,638k, representing a decrease of €1,348k compared to 2015. The decrease was primarily due to large jackpot pay-out amounting to €37,000k (2015: €15,000k), €20,000k of which was covered by special insurance.

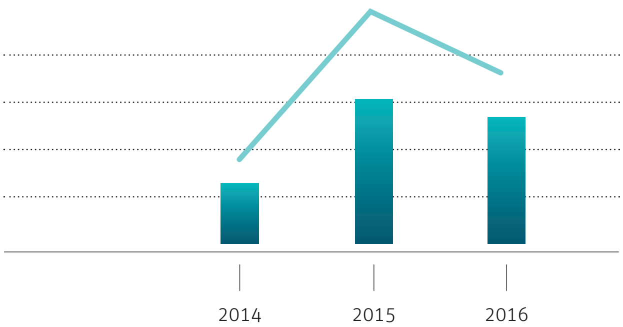
Other operating income primarily comprised of €20,000k from the above mentioned special jackpot insurance pay-out (2015: income generated from hedging of €48,000k). Period on period fluctuations in other operating income are expected based on the timing of jackpot winners. The remaining operating income relates to hedging income and the release of dormant customer balances of €3,397k (2015: €nil). The release related specifically to customer account balances where no activity had been recorded in at least the last 26 months. The release of these account balances is in compliance with publicly available terms and conditions on our website.

EBIT

At a consolidated statutory level, EBIT recorded for the year amounted to €37,956k representing a decrease of 11% compared to the previous year (2015: €42,859k). The EBIT decrease was driven by a reduction in TOP of €1,348k, increased investment in marketing of €4,872k to drive customer acquisition and re-activation of B2C's customer base, an increase in direct costs of operations of €2,547k primarily attributable to special jackpot insurance and a loss on acquisition of GGGL and Geo24 of €1,340k. This is partially offset by a reduction in depreciation and amortisation of €4,987k.

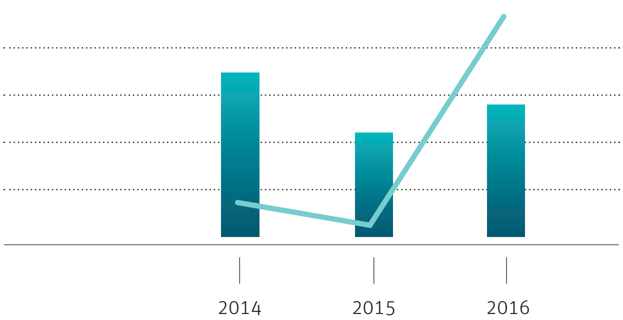
EBIT was above the forecast guidance of €25m to €35m announced on 17 May 2016.

EBIT/EBIT MARGIN



	2014	2015	2016
EBIT in €k	19,156	42,859	37,956
EBIT margin in %	13.6	48.2	33.6

REVENUE/NET OPERATING MARGIN



	2014	2015	2016
Revenue in €m	140.7	89.0	112.9
Net operating margin in %	3.8	1.5	23.0

EXPENSES

In 2016, personnel expenses were €26,705k representing an increase of 5% compared to 2015 (€25,434k). The year-on-year increase in personnel expenses is primarily attributable to annual increases to staff wages and higher achievement by the Executive Directors of their performance targets.

Other expenses include adverse foreign exchange movements with costs increasing from a gain in 2015 of €1,433k to a loss of €1,304k in 2016. This loss was driven by the decrease of the GBP, following the EU Referendum result.

FINANCIAL RESULT

Impairment of convertible loan
In quarter one of 2016, ZEAL acquired the remaining shares in GGGL and Geo24, to obtain 100% ownership. These results are now fully consolidated into the ZEAL Group result therefore no further 'share of profits' will be disclosed. A charge of €1,598k relating to a write-off of the amounts drawn on the convertible loan has been recorded. Further details can be found in note 6 to the consolidated financial statements.

TAX

At 29.0%, the consolidated tax rate for the year was lower than in the prior year (93.1%). The expected tax charge based on the blended rate of UK corporation tax of 20.0% (2015: 20.25%) is €7.3m (2015: €4.0m) compared to the actual tax charge recorded of €10.6m (2015: €18.3m). The most significant drivers of a tax charge higher than the effective rate are described below:

- A tax effect charge of €3.9m (2015: tax charge of €4.8m) on tax losses carried forward partially offset by tax losses utilised during the year.
- A tax effect charge of €0.3m (2015: tax charge of €4.7m) on non-deductible expenses and other temporary differences.
- A tax effect credit of €0.1m (2015: tax credit of €0.5m) in respect of an overprovision relating to the prior years.
- A tax effect credit of €0.8m (2015: tax charge of €5.3m) in respect of settlement of legal cases and uncertain tax positions.

KEY PERFORMANCE INDICATORS

The Executive Board and Supervisory Board use a range of indicators to continually assess performance, to ensure the Group's stated strategies continue to align with shareholder interests. This includes statutory measures, which provides comparability for investors. The Group's key performance indicators are set out below.

Performance indicator	Definition and relevance	2016 performance
Normalised revenue	Monitoring this KPI provides a measure of underlying performance of the Group by removing pay-outs above expectation.	Normalised revenue in 2016 was €145,515k, 3% higher than in 2015 (€141,189k).
Total Operating Performance (TOP)	Monitoring this trend provides a measure of the statutory revenue and other operating income, hedging income of the Group.	TOP in 2016 was €139,638k, 1% lower than in 2015 (€140,986k).
Statutory EBIT/ Normalised EBIT	Monitoring these trends provides a measure of the Group's ability to increase the economic value of our operating activity over a period of time.	Statutory EBIT in 2016 was €37,956k, 11% lower than in 2015 (€42,859k). Normalised EBIT in 2016 was €50,820k, 8% higher than in 2015 (€47,135k).
Earnings Per Share (EPS)	Monitoring EPS trend provides a measure of the Group's ability to increase the inherent value of the Group's ability for our shareholders over a period of time.	EPS from continuing operations in 2016 of €3.09 versus 2015 (€0.16).
Net cash position	Net cash position defined as: Cash (without pledged cash) + Short-term financial assets + Other current assets and prepaid expenses - Trade payables - Other liabilities - Income tax liabilities - €50m hedging reserve Monitoring this KPI provides a measure of the Group's ability to reinvest profits or to pay dividends to shareholders.	Net cash closing position of €43,683k, 29% higher than last year (2015: €30,959k).
Operating cash flow	Monitoring this indicator provides a measure of the Group's liquidity in the short term.	Cash flow from operating activities in 2016 was €33,741k, 23.7% higher than in 2015 (€27,285k).
Billings	Monitoring the billings trend provides a measure of the Group's ability to increase the economic value of stakes from customers (including brokerage stakes) net of free bets over a period of time.	Billings in 2016 was €280,435k, 4% higher than in 2015 (€268,645k).
Average Billings per User per month (ABPU)	Monitoring the ABPU trend provides a measure of the Group's ability to increase loyalty and value from our customers.	ABPU in 2016 is €58.03, 6% higher than in 2015 (€54.63).
Monthly Average Users (MAU)	Monitoring the MAU trend provides a measure of the Group's ability to retain and attract new customers.	Average MAU for the 2016 year was 375k, 1% lower than in 2015 (379k). MAU in December 2016 was 476k, 16% higher than in December 2015 (411k).

DIVIDEND POLICY

The Executive Board has proposed, and the Supervisory Board has approved, a dividend policy under which the Company will pay annual dividends which are expected to amount to a total of at least €1.00 per share in 2017. An announcement of the amount of the dividend, and the record date for entitlement to the dividend, will be made in advance of payment of the dividend.

Dividend for 2016

in €	Q.4 2016	Q.3 2016	Q.2 2016	Q.1 2016
Dividend per registered share	0.70	0.70	0.70	0.70
Payment date	30 December 2016	30 September 2016	30 June 2016	31 March 2016

CASH FLOWS AND CAPITAL MANAGEMENT

PRINCIPLES AND OBJECTIVES OF CAPITAL MANAGEMENT

ZEAL operates a decentralised capital management system. While the Executive Board of ZEAL Network takes all major decisions concerning the financial structure of the B2B/B2G segment, capital management activities of the B2C segment are handled by MyLotto24 Limited – with the exception of Tipp24 Services Limited, which operates its own capital management system.

The principles and objectives of ZEAL's capital management are as follows (the risks to which ZEAL is exposed are described in the current risk report on pages 25 to 29):

- Cash and cash equivalents are invested in a variety of short-term securities offering as much liquidity and as little volatility as possible, while ensuring broad risk diversification. The overriding objective of our investment strategy is to preserve capital – even at the expense of expected returns.
- Equity in excess of those funds required to ensure the Group's stable financial position is to be used for investments in line with our growth strategy. In the medium-term, it is possible that ZEAL may also leverage its financial position by means of interest-bearing debt.

Capital management policies of MyLotto24 Limited and its subsidiaries and Tipp24 Services Limited are disclosed in their stand-alone financial statements, which are available from each company's registered office. Further information can be found at note 29 to the consolidated financial statements.

ZEAL's equity increased in total by €2,389k to €97,558k in 2016 due to the healthy net profit for the current year. During the period, ZEAL distributed interim dividends at €2.80 per share totalling €23.5m (2015: €23.5m). Over the same period, the equity ratio increased by 4 percentage points to 72%.

ZEAL did not hold any interest-bearing debt during 2016 or at 31 December 2016.

LIQUIDITY ANALYSIS

in €k	31/12/2016	31/12/2015
Key cash flow positions		
Cash from operating activities	33,741	27,285
Cash used in investing activities	(3,258)	(4,287)
Cash used in/from financing activities	(23,478)	(23,478)
Changes in cash and pledged cash and short-term deposits	**7,005**	**(480)**
Cash and pledged cash and short-term deposits at the beginning of the year	107,660	108,140
Cash and pledged cash and short-term deposits at the end of the year	**114,665**	**107,660**

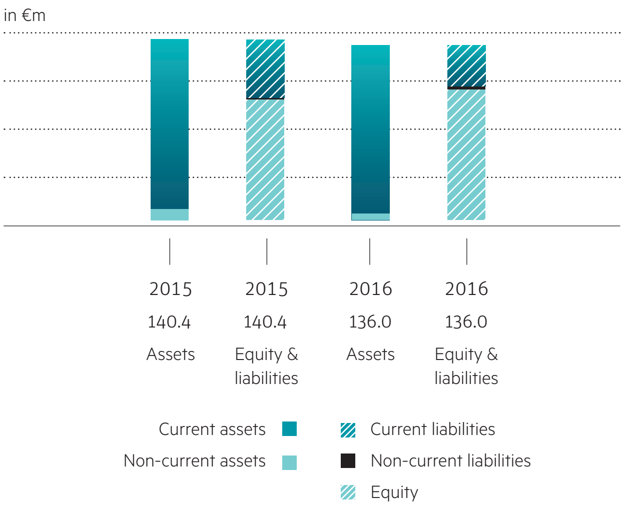
Cash from operating activities in 2016 was €33,741k (€6,456k above the comparable 2015 figure of €27,285k). The difference was primarily driven by working capital movements separately identified on the face of the consolidated cash flow and a higher EBIT for the year.

In 2016, investing activities resulted in cash outflows of €3,258k (2015: €4,287k). Due to the payments of four interim dividends in 2016, cash used in financing activities amounted to €23,478k.

As of 31 December 2016, ZEAL Group had cash and pledged cash and short-term deposits of €114,665k (2015: €107,660k). This includes funds that ensure that MyLotto24 is sufficiently financed to make payments of potential relevant jackpot winnings.

At 31 December 2016, ZEAL had off-balance-sheet future obligations from operating lease agreements for offices and technical equipment in the amount of €14,559k (2015: €12,260k). ZEAL has future obligations of €20,011k (2015: €21,214k) from agreements containing obligations from services, insurance, maintenance and licence agreements.

BALANCE SHEET STRUCTURE



FINANCIAL POSITION

ASSETS NOT RECOGNISED

Other than the Alinghi and KOSMO platforms, ZEAL has not recognised any internally generated assets such as customer lists, brands or gaming software in its financial statements. Employee costs incurred for development of new gaming software were not capitalised as they did not meet all criteria set out in IAS 38 'Intangible assets'.

OFF BALANCE SHEET FINANCIAL INSTRUMENTS

Off balance sheet financial instruments did not play a significant role in financing ZEAL in 2016. A bank guarantee facility in the amount of €268k (2015: €357k) was taken out to secure future obligations under rental agreements for office space.

FORECAST AND RISK REPORT

EXPECTED EARNINGS POSITION

For 2017, ZEAL Network expects to generate consolidated statutory TOP of between €130m to €140m with consolidated EBIT between €15m and €25m.

RISK REPORT

RISK MANAGEMENT

ZEAL Network has delegated the day-to-day responsibility for risk management to the management teams of the Group's two business segments ('B2C' and 'B2B/B2G'). In addition to the risks specific to ZEAL Network and its wholly owned subsidiaries (predominantly companies within the B2B/B2G segment), ZEAL's Executive Board also assesses the risk position of the companies included in the B2C segment (which primarily comprises those entities within the MyLotto24 sub group).

As ZEAL Group only holds a minority shareholding in the MyLotto24 sub group, the assessment of risks within the B2C segment is substantively based on risk reports provided by segment management as part of regular and ad-hoc reporting. The risk related reporting mainly focusses on any new risks identified (and their perceived impact on the operating activities of the MyLotto24 sub group and the ZEAL Group as a whole) together with segment management's assessment of any changes in the profile of previously identified specific risks around significant processes, controls and the wider segment governance. The completeness of the segment risk assessment is covered through frequent meetings held between ZEAL Group management and segment management where risk management is a standing agenda point.

ZEAL Group is exposed to the typical sector and market risks associated with the economic activities of an international company operating in the Internet sector. In addition, there are market-typical regulatory risks in individual lottery markets resulting from possible changes in the respective legal and political situations. Finally, there are specific risks associated with the organisation of secondary lotteries. This concerns the risk of large payouts as well as the increased risk of fraud compared to the pure brokerage of lottery products. All reasonably possible risks identified by management that could have a material impact on the ongoing business activities of the Group, together with mitigation activities, are detailed in the 'Market and Sector Risks' section below.

The management teams of the respective segments consider them in their operating and strategic decision making processes. Both current and potential future risks are regularly monitored by segment and Group management. ZEAL's risk management process operates as follows:

- Operating risks are monitored by regularly reviewing financial and other key ratios. The monitoring frequency, designated controlling responsibility and determined rules of procedure for defined deviations from target values are set out for each ratio. In the case of technology risks, emergency back-up procedures are defined and documented and can be quickly implemented if required. Security standards are regularly monitored and adjustments are regularly made to security systems.
- Legislation changes in those markets in which ZEAL operates are regularly evaluated by the Company's internal legal experts (and with assistance from external legal advisors where necessary). In this way, events which may increase risk to the ongoing operating activities of the Group can be swiftly recognised and suitable measures initiated.
- The statistical risks of organising secondary lotteries, i.e. the expected pay-out ratios over the long-term are monitored by the statistical assessment of the products offered and the corresponding expected stakes. Hedging instruments, such as jackpot insurance-linked securities, are used to ensure sufficient liquidity to pay out jackpots.
- The Executive Board regularly monitors the results and effectiveness of the risk assessment procedures delegated to the business segment management teams. We believe that the early warning and risk management systems which we have implemented are well suited to quickly recognising and mitigating risks that could impact ZEAL's operating activities.
- On a regular basis, a report comprising all identified risks applicable to the Group is presented to the Audit Committee and the Supervisory Board, together with commentary around potential preventative measures and mitigating activities performed to respond to identified risks.

The following risks to ZEAL's business have been identified:

MARKET AND SECTOR RISKS

General market risks

Risk

Continued success of the secondary lottery business is heavily dependent on the stability of the lottery markets in countries where MyLotto24 operates. Declines in these lottery markets, due to falling advertising spend, a decrease in the product portfolio offered by primary lottery operators or a sustained period without jackpot pay-outs, is likely to have a negative impact on the results of our secondary lottery betting business. Furthermore, entry to the markets of competitors, especially online service providers, may also restrict further growth.

Management of risk

We have no direct control over the operation of the primary lotteries in the countries in which we trade. However, the management of MyLotto24 performs continuous target and competitor analysis as well as reviews of the market conditions in the countries where its products are offered. Staff resources are allocated to markets proportional to the level of activity. The quality of the front end website and product suite offered is reviewed and updated frequently to maintain user interest.

Bookmaking risks of MyLotto24 Limited

Risk

MyLotto24 Limited bears the bookmaking risks for its secondary lottery business based on various European lotteries, whereby the pay-out ratios are based on those offered by the organisers of the primary lotteries. Due to statistical fluctuation differences, these ratios may be greater than the expected value for pay-out ratios determined by the gaming systems of the primary lotteries – for example, approximately 50% in the case of the German Lottery. They may even be temporarily greater than the stakes received by MyLotto24 Limited. Insofar as they are not covered by existing effective hedging arrangements, higher than expected pay-out fluctuations, may have a significant negative effect on the financial position and performance of MyLotto24 Limited and the ZEAL consolidated position and performance.

Management of risk

In 2011, MyLotto24 Limited set up a catastrophe bond (CAT bond) via an insurance-linked-security (ILS) vehicle to transfer a large amount of its jackpot payment risks to the capital market. In 2015, that structure was amended and renewed to respond to the differing risk profile stemming from an increase in the products provided. As well as the ILS vehicle, traditional insurance policies are taken out based on the continuous exposure assessment. Upon completion of initial verification checks, MyLotto24 Limited informs ZEAL Network immediately about individual pay-outs of €5m or more. ZEAL Network has communication guidelines which generally lead to the publication of such notifications.

Risk from economic downturn

Risk

Since commencement of operating activities in 2000, the gaming behaviour of our online customers has so far been largely unaffected by macroeconomic conditions in the markets in which we operate. There is however a risk that an exceptionally strong economic downturn may adversely affect the gaming behaviour of our customers.

Management of risk

MyLotto24 monitors the macroeconomic environment of the countries where products are sold to ensure that any significant downturn risk is appropriately managed. This review process allows management to anticipate whether a decrease in personnel allocation or level of operations is required.

Currency risks

Risk

As ZEAL conducts a significant proportion of its business in Euro, there is no significant currency risk on its core activities. Since the incorporation of the UK company structure in 2009, the Group is more exposed to currency risk generated by the movement of the British Pound (GBP) against the Euro.

Management of risk

The Group holds a proportion of its cash balance in GBP, which creates a natural hedge of reasonably possible future GBP expenses. ZEAL routinely assesses foreign currency exposure and considers external hedging instruments if significant future cash flows are known.

Risks from the processing of gaming operations

Risk

ZEAL uses a number of automated processes to handle customer transactions. The efficiency and reliability of ZEAL's service provision is therefore highly dependent on the functionality and stability of the underlying IT infrastructure. The functional ability of the servers and the related hardware infrastructure and software architecture – in particular bespoke gaming software – is of considerable significance to ZEAL's business, its reputation and its ability to attract new and retain existing customers.

Management of risk

The risk of IT failure (e.g. database servers, application servers, web servers, firewalls, routers) is mitigated by the Company's use of duplicate servers and the outsourcing of areas of IT technical support impacting critical functions to third party contractors (contractually obliged to provide rapid response in the case of a fault).

Tax and other duty risks

The Group engages in significant cross border activity in jurisdictions where the tax environment (specifically in the gambling sector) is subject to relatively frequent change. The recording of certain tax and other duty related transactions, balances and disclosures can be complex by their nature and cannot be finally determined until a formal resolution has been reached with the relevant tax authority. Management has considered the treatment of all tax and other duty related items with the following items having the most significant impact on the consolidated financial statements:

Tax audits

2005/2007 German tax audit

As noted in the 2015 Annual Report, there was a dispute regarding the validity of the tax treatment of an item included in returns filed during inspection period (business years 2005 to 2007 inclusive). After the filing for a stay of execution was denied by the Fiscal Court of Hamburg, an amount of €3.6m was paid during 2015 (€2.3m tax charge and €1.3m interest and penalties). During 2016, the Directors discontinued the appeal against the tax authority's assessment and settled the remaining charges for €0.2m. The case is now fully closed and no further cash outflows are anticipated.

2008/2011 German tax audit

During 2016, a separate case brought by the same tax authority in respect of business years 2008 to 2011 was settled for €2.3m. The best estimate of the expected outflow of economic benefits at 31 December 2015 resulted in the recording of a provision of €3.0m in the 2015 financial statements. The overprovision of €0.7m was released to the consolidated income statement through the tax line in Q4 2016 when the Directors were satisfied that no future obligation from the tax case was anticipated. Management considers this case closed as there have been no further communications from the tax authority. No related cash outflows or provisions are anticipated and there is no contingent liability.

VAT risk

Risk

Up to 31 December 2014, VAT liabilities on Electronically Supplied Services (ESS) to private consumers and non-taxable customers were accounted for based on the governing legislation of the country where the supplier was established. Effective 1 January 2015, amendments made to the German VAT Act (UStG) have been brought into law. These changes implement amendments to the EU Directive on the common system of value added tax (EU VAT Directive) which has now been adopted throughout the EU. In terms of the Group's operations, ESS provided to private consumers and non-taxable customers (i.e. those that are not deemed to be 'in business' for VAT purposes) are now taxable in the Member State in which the recipient is established rather than in the supplier's country of establishment.

Management of risk

As the matter referred to principally impacts the MyLotto24 sub group, the Directors of MyLotto24 Limited and Tipp24 Services Limited carried out a detailed analysis of the services provided to private and non-taxable consumers. This review specifically considered changes to applicable laws in the EU member states in which the Group operates and included obtaining several legal and tax opinions from independent sector experts on the impact of the law changes. The Directors are satisfied that sufficient diligence has been undertaken in applying the change of law to its business. The changes to the law have caused considerable uncertainty for companies providing supplies and services into countries where the legal and regulatory position is unclear, particularly in respect of the definition of supplies and the base on which taxes may be charged. Based on information currently available, the Group considers that the likelihood of an outflow of economic resources, resulting from a challenge by a tax authority in any EU member state, cannot be accurately predicted and is dependent on interpretation of this new legislation.

If we are unsuccessful in our defence of any case brought against the Group by the tax authorities, the resultant VAT liability could substantially lower the consolidated results of the Group. However, on the basis of the information provided by MyLotto24 Limited and Tipp24 Services Limited, we believe that this is unlikely. Further information on this matter is included in note 27 to the consolidated financial statements.

Risks from payment transactions

Risk

National or international payment transaction restrictions may be introduced in connection with the further regulation of gaming markets. The number of available payment service providers for the gaming market is restricted. As a consequence, there is a risk that such providers may leave this market segment and no suitable replacement may be available for ZEAL. Cost increases for payment transactions would have a negative effect on the profitability of individual ZEAL companies and payment transaction restrictions or a lack of available payment service providers might have a significant adverse effect on the business activities of ZEAL.

Management of risk

The Group maintains very strong relationships with acquiring banks and has contingency acquisition banking relationships (with banks outside Germany) should payment blocking be enacted by local Governments.

Regulatory risks

Given the fact that the German gambling regulation still prohibits the commercialisation of privately operated lotteries in Germany, there remains a risk that German authorities may attempt to prevent the MyLotto24 sub group from operating in line with its business model. While we believe that the legal basis for action would not be consistent with EU law, it cannot be discounted that certain enforcement measures would hinder the business activities of the MyLotto24 sub group or prevent its ongoing viability.

Management of risk

We continue to closely monitor the German and wider EU legislative and regulatory environments and engage specialists where required. Due to recent successful challenges of the primacy of German law, we believe that it is probable that the courts will continue to rule that the German monopoly regulations are incompatible with EU law.

Risks from cash and investments

Risk

At the end of the reporting period, ZEAL held cash in Germany, Spain and the UK totalling €94,983k (2015: €94,777k) in accounts with various major European banks. Certain financial institutions where ZEAL holds balances may default, which could lead to the partial or complete loss of our cash deposits.

Management of risk

Management has concluded that theoretical default risks resulting from the current financial market development are limited due to regular thorough analysis of the relevant credit institutions.

Risk

At 31 December 2016, the Group held short-term financial assets of €19,682k (2015: €12,883k). The collapse of individual issuers of such securities may lead to the partial or complete loss of these financial assets.

Management of risk

To mitigate this risk, cash is invested in a diverse range of funds primarily comprising investments with high credit ratings.

Personnel risks

Risk

Even with careful selection and responsible staff management, it cannot be ruled out that experienced employees may leave ZEAL within a short period of time leading to a business continuity risk. The recruitment of replacement staff might be time-consuming and costly, this could have a material effect on ZEAL's financial position and performance.

Management of risk

To mitigate this risk, new staff are carefully selected, often with the help of personnel consultants. Responsibilities, goals and key success parameters are discussed on a regular basis with each employee. Performance checks are carried out to ascertain whether these goals and parameters have been fulfilled and feedback is given to employees in regular performance reviews. Specific reviews are used to determine employee satisfaction. The results of these reviews are regularly evaluated in order to counter any undesired trends.

General business risks

Risk

As the business grows there is a risk that the risk monitoring system particularly in the area of IT does not develop proportionally quickly. Further expansion of business in new markets and new product areas is planned for the years ahead. The challenge will continue to be identifying existing and new risks, and to assess them correctly in a timely manner, as well as to further develop the existing risk monitoring system appropriately and promptly. Failure to do so could lead to an impaired ability to recognise and manage risks, trends and undesirable developments in a timely manner.

Management of risk

The Board is committed to monitoring existing and emerging risks on at least a quarterly basis to ensure that a full risk profile is developed and current.

Risks of non-payment by insurers

Risk

There is a risk that insurers may fail to fulfil their payment obligations in future and that such claims may have to be pursued through the courts. Such refusals to pay could have a significant impact on ZEAL's financial position and performance.

Should one or more of these risks occur, it may materially impact ZEAL's business and have significant adverse effects on its financial position and performance.

Management of risk

All bets taken are submitted to the loss adjuster for verification in advance of any draws. Furthermore, any updates to contracts are reviewed by internal lawyers and external legal advisers before approval to mitigate the non-payment risk.

Challenge to the operations of Ventura24 S.L.U. (Ventura24)

Risk

Ventura24 is a wholly owned subsidiary of ZEAL Network SE. The Spanish Gambling Commission is currently in the process of challenging the nature of Ventura24's business activities stating that Ventura24 requires a licence to sell lottery tickets in Spain's primary lottery. Ventura24's management disagree with this assessment and contend that Ventura24 purchases tickets on behalf of customers only when they have received instruction to do so. While the case against Ventura24 continues in the Spanish courts, Ventura24 is still permitted to operate.

Management of risk

If the Spanish Gambling Commission is successful in its challenges, the impact of closure of the company would, in itself, not have a significant financial impact on the Group's results, however, it could have an impact on the current hedging strategy. The Group has engaged experienced legal experts to litigate the case in the Spanish courts and continues to actively evaluate alternative options to ensure that our hedging structure will not be interrupted.

CSR REPORT

100
ATHLETES SUPPORTED

£100k
TOTAL GRANTS 2016

WE LOVE TO SUPPORT OUR COMMUNITY!

ZEAL believes that giving back to society is not a choice, it is our responsibility. We are a diverse Group with focus on sustainability and progress. This is reflected in our approach to business practices and in the way we give back to society. This approach is continuously developed, whereby we divide our CSR activities into two categories: Helping our community and helping young athletes and their families.

STRONG PARTNERS

ZEAL Group has fostered its work through partnerships, namely with the London Community Foundation and SportsAid. These organisations help us to distribute the funds in a transparent and coherent manner to the most worthy beneficiaries. We want to be known for what we achieve not for what we give!

PROMOTING SPORT WITH SPORTSAID

We strongly believe in supporting young people at those challenging and difficult times of their early careers. We are therefore very proud to be able to report on the progress of the 'Winners of Tomorrow Fund' which was set up to enable the next generation of British athletes to achieve their potential by giving them financial support and recognition when they need it most.

Since the Fund was set up in 2014, we have supported 100 up-and-coming athletes in 43 different disciplines including winter and para-sports. This year, two of our supported athletes competed at the 2016 Summer Olympics in Rio with the help of our funding. We continue to organise several events to promote our partnership with SportsAid, such as an athlete and parent networking evening, a full day athlete workshop at Loughborough University, a parliamentary reception at the House of Commons, and internal fundraising challenges to raise further funds for the charity in its 40th year anniversary. ZEAL employees volunteer as buddies to act as the point of contact for the athletes and their parents to share their achievements and upcoming competitions with the Group.

EMPOWERING NEIGHBOURHOODS

The 'Good Neighbourhood Fund' supports grassroots initiatives in London neighbourhoods in partnership with The London Community Foundation. The LCF's expertise in reaching these grassroots initiatives and community organisations, usually below the radar of the general public, ensures the funding reaches those most dedicated and in need. The fund supports a number of local organisations each year. In addition to the financial support, employees volunteer their own skills and time to further benefit the community initiatives.

Since the launch of the fund in 2014, we have supported twelve organisations across various London boroughs with grants of up to £10,000 each, per year. ZEAL employees are entitled to three days of volunteering per year; this year employees have helped prepare planting areas for one of the edible garden projects in East London, as well as helping to raise £6,000 by undertaking a challenge to live off a typical food bank parcel for one week.

WE CARE FOR OUR RESOURCES

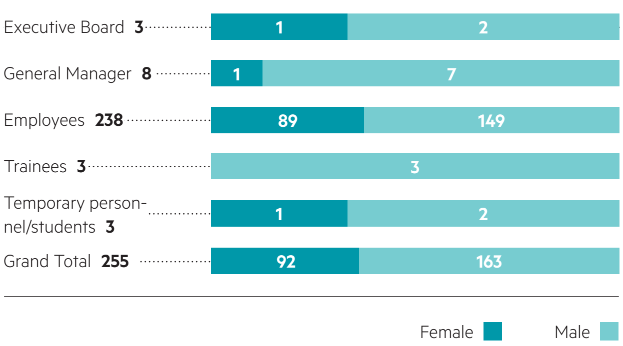
We are committed to promoting the well-being of our employees and have therefore undertaken a number of activities related to work life balance, diversity and continuous learning.

HIGHLY MOTIVATED EMPLOYEES AND TALENT DEVELOPMENT

We empower people to take ownership and independently drive developments by promoting a culture that is characterised by agile working methods, regular get-togethers, knowledge sharing and peer coaching. We treat each other with respect and live our company values in our daily work.

We consider instant feedback and continuous learning as essential elements of the aforementioned and therefore offer every employee the opportunity to develop their knowledge. Training is delivered and encouraged in a number of flexible ways: allowing employees to participate in traditional on-site training, extending experiences and skills 'on the job', and by facilitating conference attendance. Regular performance reviews and multi rater systems are used to ensure transparent feedback and performance assessments.

During 2016, ZEAL Group invested €554k in training activities and various new staff training schemes were implemented across all employee levels including training and coaching in leadership, stakeholder management and effective presentations. Training is often tailored to meet individual needs and knowledge gaps. ZEAL also provides language lessons in German, Spanish and English to upskill staff and to break down internal language barriers that exist in multinational companies.



5.72%
INTENSITY RATIO

645.9
CO_2 (METRIC TONNES)*

Includes electricity purchased by direct use or proportional charge by landlord. Emissions calculated using UK Government and international GHG conversion factors and building emission rates according to energy performance certificates.

DIVERSITY

ZEAL employees are truly diverse, which makes for an exciting, internationally aware and engaging working environment. Despite the fact that our industry (in general) continues to be predominantly male we manage to foster a culture which embraces and values diversity and encourages equal opportunities. The gender split of our board and 2nd level management at Year End can be seen above. To support and enable family life we offer flexible working hours and where possible options to work from home. For us, equality is not intended to be an aspiration but a reality. We recognise that we can always do more in this area and will be ambitiously reviewing possible opportunities to support diversity.

RESOURCE CONSERVATION

As an online business, ZEAL's activities have a relatively small impact on the environment. Our carbon footprint currently includes GHG emissions generated from our office buildings in London, Hamburg and Madrid (predominantly through heating fuel, air conditioning and purchased electricity). We have used revenue to calculate our intensity ratio, as this demonstrates the best comparative measure over time and it provides the most relevant indication of our growth.

Dr. Helmut Becker
Chief Executive Officer
23 March 2017

ZEAL SHARES

SIGNIFICANT SHAREHOLDERS

The provisions of the UK Disclosure Rules and Transparency Rules (DTR) require that any person or fund acquiring a direct or indirect interest of 3% or more of any class of shares issued by the Company that give voting rights at the Company's Annual General Meeting (AGM) must inform the Company of its interest within two working days. If the shareholding subsequently changes from 3% through purchase of additional shares or sale of shares held, the shareholder must inform the Company of any increase or decrease leading to a change of one percentage point in its interest.

In accordance with DTR 5.1.5, scheme operators and investment companies with variable capital (ICVCs) ('investment companies') who hold voting shares in the Company are required to notify the Company when certain thresholds are met as follows:

- When an investment company holds 5% of shares issued by the Company.
- When the investment company reaches a shareholding of 10%.
- For every percentage point above 10% of the issued shares of the Company.

Once the Company is notified, it must then notify the German Federal Financial Supervisory Authority (BaFin) and the Frankfurt Stock Exchange.

Under Section 15a of the German Securities Trading Act (Wertpapierhandelsgesetz), transactions in the Company's shares executed by Members of the Executive Board and Supervisory Board and their family members (Directors' dealings) are reported and published immediately after the Company is made aware.

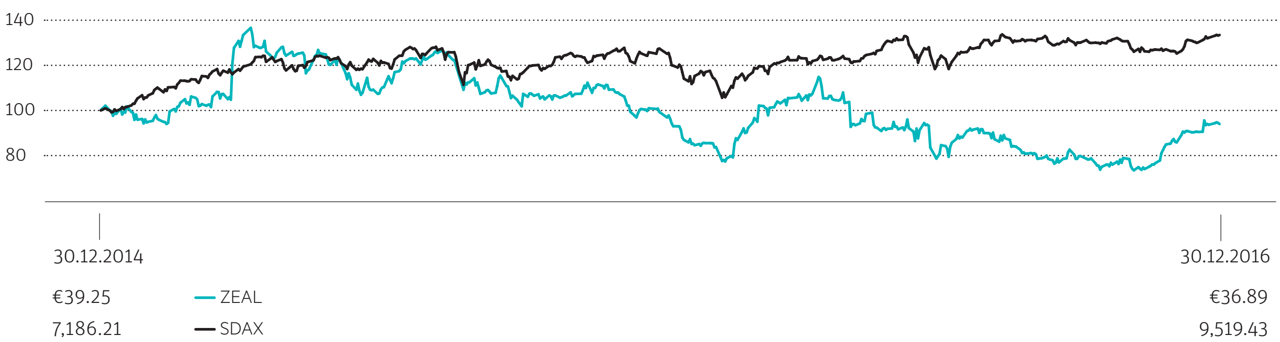
Clearstream Banking AG is classified as the legal owner of the Company's listed shares. Based on information received by the Company at 31 December 2016 (including TR-1 notifications, notifications of Directors' dealings and other notifications pursuant to Section 21 of the German Securities Trading Act prior to the transfer of the Company's corporate seat to the UK), as far as the Company is aware, persons or funds holding a significant beneficial interest in the Company (i.e. greater than 3%) as at 31 December 2016 and as at the date of this report are set out below:

10.22%[1]	Oliver Jaster (held indirectly through a chain of controlled undertakings: Günther SE, Günther Holding SE, Othello Drei Beteiligungs-Management GmbH, Othello Drei Beteiligungs GmbH & Co. KG)
7.43%[2]	Schroders plc (held through a chain of controlled undertakings: Schroder Investment Management Limited, Schroder Investment Management North America Limited)
5.91%[3]	Farringdon Capital Management (held indirectly via (1) Farringdon I – SICAV, (2) Farringdon II SICAV and (3) Blackwell Partners Series A)
5.03%	LRI Investment S.A.
4.82%	Marc Peters
3.16%[4]	Vanguard International Explorer Fund

[1] Percentage of interest calculated taking into account directors' dealings notifications received.
[2] Schroders plc holdings reduced to 4.99%, subsequent to the reporting date.
[3] Farringdon Capital Management holdings reduced to 3.97%, subsequent to the reporting date.
[4] Vanguard International Explorer Fund holdings reduced below 3%, subsequent to the reporting date.

No other holdings of 3% or more of the voting rights in the Group, has been notified to the Group between 1 January 2017 and 23 March 2017, both dates inclusive.

PERFORMANCE OF ZEAL SHARE (INDEX 30.12.2014 = 100)



Key share figures

Day of initial listing	**12/10/2005**
Year-opening price	**€38.20**
Market capitalisation (year-opening)	**€320m**
Year-end price	**€36.89**
Market capitalisation (year-end)	**€309m**
Highest Price (12/04/2016)	**€44.88**
Lowest Price (04/11/2016)	**€29.04**
Number of outstanding shares (31/12/2016)	**8,385,088**
Average daily trading	**€1.2m**
Dividend for 2016 (per share)	**€2.80**

Shareholder information

WKN	**TPP024**
ISIN	**GB00BHD66J44**
Ticker symbol	**TIM.DE**
Stock exchange	**Frankfurt Stock Exchange**
Market segment	**Regulated Market, Prime Standard**
Designated sponsor	**ODDO SEYDLER BANK AG**
Coverage	**Berenberg Bank** **Deutsche Bank** **Kepler Cheuvreux** **M.M.Warburg**
Reuters	**TIMGn.DE**
Bloomberg	**TIM GR**

WHY INVEST?

- **Sustainable cash generating core business.**
- **Strong financial position to finance growth.**
- **Leading expertise in online lottery-based products.**

GOVERNANCE

EXECUTIVE BOARD AND SUPERVISORY BOARD

The Executive Board and Supervisory Board currently comprise a total of nine Directors. This includes three Executive Directors and six Supervisory Directors. The Executive Board and Supervisory Board comprise the required mix of skills, knowledge and experience to provide leadership, control and oversight of the management of the Company and to contribute to the development and implementation of the Company's strategy. Director biographies are set out below and further details on the composition of the Board, and the Board's various sub-committees are detailed on pages 36 to 37.

1. DR. HELMUT BECKER

Executive Director (CEO)

Helmut Becker has been CEO of ZEAL since August 2015. Previously, Dr. Becker served as Chief Marketing Officer of ZEAL from June 2013 to August 2015. Prior to that he served as a Member of the Supervisory Board of ZEAL for two years. From 2009 to 2013 Dr. Becker was the Chief Commercial Officer (2009–2013) of XING AG, where he was responsible for its Product, Marketing and Revenue divisions. Dr. Becker has previously held leadership roles at eBay Germany, eBay Advertising AG, and eBay subsidiary Shopping.com Deutschland after beginning his career at McKinsey. Dr. Becker studied physics at the University of Hamburg before gaining his PhD at the University of Cambridge.

2. JONAS MATTSSON

Executive Director (CFO)

Jonas Mattsson has been Chief Financial Officer of ZEAL since February 2015. He has more than a decade of senior management experience with particular focus on the telecommunications and technology sectors. Prior to joining ZEAL, he was CFO and Executive Vice President of the network communications company O3b Networks, where he played a key role in raising $1.3bn for the company and in establishing a global organisation. Mr Mattsson has served as CFO of various entities of SES, a world-leading satellite operator, as well as working with management teams across Ericsson, including on assignment in Japan and within the start-up Ericsson Microsoft Mobile Venture.

3. SUSAN STANDIFORD

Executive Director (CTO)

Susan Standiford has been Chief Technology Officer since May 2015. With over 20 years of experience in the software development and information technology sectors, she has developed vast expertise in delivering innovative, value-based solutions in B2C and B2B/B2G businesses. Prior to joining ZEAL, she was the CTO of Rue La La, a leading private shopping portal in the US, and she previously worked as Vice President of Technology at both Travelocity and Disney Online. Mrs Standiford is a US citizen and holds a Bachelor of Arts in Anthropology/Mathematics from the University of Illinois at Urbana-Champaign.

4. ANDREAS DE MAIZIÈRE

Supervisory Director (Chairman)

Andreas de Maizière has been Chairman of the Supervisory Board of ZEAL since 2011. He worked for 30 years for Commerzbank AG: from 1999–2005 as Member of the Executive Board and in his last position as Chief Operating Officer ('COO'). He is a self-employed Senior Adviser of the investment company Doertenbach & Co. GmbH, Frankfurt. Mr Maizière holds numerous seats on supervisory boards and councils of various companies and institutions. He studied business administration at Cologne University. Mr de Maizière has resigned from the board with effect as of the conclusion of the next AGM in June 2017.

Committee Membership: Chair of Chairman's Committee, Audit Committee

5. THORSTEN H. HEHL

Supervisory Director
Thorsten H. Hehl has been a Member of the Supervisory Board of ZEAL since June 2013. He has been an investment manager at Günther Group since 2008. Prior to this, he worked for Bankhaus Metzler and HSH Nordbank in the field of corporate finance. After completing his vocational bank training, Thorsten H. Hehl studied business administration in Giessen and Atlanta (USA) as well as at Handelshochschule Leipzig (HHL).

Committee Membership: Audit Committee

6. OLIVER JASTER

Supervisory Director
Oliver Jaster has been a Member of the Supervisory Board of ZEAL since 2008. He has been a managing director of the Günther Group since 2004 and previously held various positions in the banking sector. Oliver Jaster studied banking and business administration at the Hochschule für Bankwirtschaft in Frankfurt and in Edinburgh.

Committee Membership: Chairman's Committee

7. BERND SCHIPHORST

Supervisory Director
Bernd Schiphorst has been a Member of the Supervisory Board of ZEAL since June 2013. He was previously an Executive Board Member and Senior Consultant of WMP EuroCom AG in Berlin. From 1979 onwards, he spent over two decades working for Bertelsmann, initially as Head of the Executive Affairs Office and Press Spokesperson of the magazine subsidiary Gruner + Jahr AG & Co. He was then heavily involved as head of Ufa Film- und Fernseh GmbH with the establishment of commercial television (including RTL, Vox, Sky, Sportfive) and radio (Antenne Bayern, Radio Hamburg) and as President and CEO of AOL Europe and Bertelsmann New Media with the introduction of digital media. In 2000, he briefly entered the world of politics as Media Advisor for the states of Berlin and Brandenburg. After completing his studies in economics, politics and publishing in Berlin, Bernd Schiphorst began his career as Managing Director and Member of the Executive Board of märkte & medien Verlag.

8. JENS SCHUMANN

Supervisory Director
Jens Schumann has been a Member of the Supervisory Board of ZEAL since July 2011. He is one of the two founders of today's ZEAL and was Managing Director and an Executive Board Member from 1999 to 2009. In March 2008, he was appointed Chairman of the Executive Board. From December 1998 to the formation of ZEAL, he worked as a business consultant at Icon Medialab AG. Mr Schumann studied law at the University of Münster from 1993 to 1998 and finished his studies with the first State Exam.

Committee Membership: Chairman's Committee

9. PETER STEINER

Supervisory Director
Peter Steiner has held a seat on the Supervisory Board of ZEAL since June 2013. He is a self-employed auditor and advises company owners, large corporations and financial investors. He was previously a partner of the investment company One Equity Partners LLC. He worked for MG Technologies AG as CFO. At Dyckerhoff AG, he was successively CFO, COO and finally CEO. Following his many years as an auditor for Arthur Andersen & Co., he was appointed CFO of Süba Bau AG. Peter Steiner studied business administration in Mannheim and Cologne. Peter Steiner will succeed Andreas de Maizière as Chairman of the Supervisory Board and the appointment will take effect at the AGM in June 2017.

Committee Membership: Chair of Audit Committee

CORPORATE GOVERNANCE REPORT

COMPLIANCE

Neither the German Corporate Governance Code nor the UK Corporate Governance Code is directly applicable to the Company. Furthermore, the Company will not publish any further declarations of conformity pursuant to section 161 of the German Stock Corporation Act since this provision is no longer applicable following the transfer of the Company's registered office to the UK.

Although Corporate Governance Regulations are not directly applicable to the Company, both the Executive Board and Supervisory Board of the Company are committed to maintaining the highest levels of Corporate Governance Standards to protect the interests of all stakeholders. Consequently, the Company has voluntarily adopted its own Corporate Governance Principles. These principles are available on the Company's website and primarily reflect the principles of the German Corporate Governance Code, (GCGC) which was applicable before the transfer of the Company's registered office to the UK. Since the transfer of the Company's Corporate Seat to the UK, amendments to these principles have been made in order to ensure compliance with UK law. Certain principles have also been removed where the provisions are no longer applicable to the Company.

Although the Company is now registered as a UK company it has chosen to maintain the existing Board structure. The Board of Directors is split into an Executive Board and a Supervisory Board. The Company believes that this structure is best suited to the management and oversight of the operations of the Company, conforms to the skillset of the incumbent Directors and provides overseas shareholders with an understanding of the governance framework adhered to by the Company.

THE EXECUTIVE BOARD

ROLE

The Executive Board is responsible for running the day-to-day operations of the Company, setting the short-term and long-term strategic objectives and ensuring that these objectives are implemented and proposing investment decisions for ratification by the Supervisory Board. The Executive Board's key objective is to create sustainable value for the Company's shareholders and other stakeholders.

COMPOSITION

The Executive Board currently comprises three members. Its members can only be appointed and removed by the Supervisory Board. The Supervisory Board is responsible for setting out the scope of the roles and responsibilities of each Executive Board member together with items that must be authorised by all members of the Executive Board ('reserved matters'). For these reserved matters, the Supervisory Board determines the required majority of Executive Board resolutions (requirement of either unanimous approval or a majority).

THE SUPERVISORY BOARD

ROLE

The Supervisory Board is responsible for advising on and overseeing the work of the Executive Board together with ratification of transactions that are of fundamental importance to the Company (as set out in the Statutes of the Company). Transactions of fundamental importance are defined as actions proposed by the Executive Board that materially change the ongoing activities, assets or financing of the Company.

COMPOSITION

The Supervisory Board currently comprises six members. Its members are appointed and removed at AGM of the Company by the shareholders. The Members of the Supervisory Board have the appropriate balance of skills, experience, independence and knowledge of the Company to enable the Supervisory Board to discharge its duties and responsibilities effectively. The Supervisory Board has concluded that it comprises an adequate number of independent members.

Andreas de Maizière is the current Chairman of the Supervisory Board and has held this position since 2011. He is responsible for organising and coordinating the work of Supervisory Board, chairing its meetings and attending to the affairs of the Supervisory Board externally. He is also responsible for maintaining regular contact with the Chairman of the Executive Board and informing the Supervisory Board of important events in relation to the management of the Company and, if required, convening extra-ordinary meetings of the Supervisory Board. The other Members of the Supervisory Board are: Peter Steiner (Deputy Chairman), Thorsten Hehl, Oliver Jaster, Bernd Schiphorst and Jens Schumann.

On 25 January 2017, it was resolved that Peter Steiner will be appointed as Chairman of the Supervisory Board with effect from the resignation of Andreas de Maizière as member and Chairman of the Supervisory Board as of the 2017 AGM.

DIVERSITY

The Company recognises the value that diversity brings to its management. The Executive Board, when filling managerial positions in the Company, and the Supervisory Board, when appointing Members of the Executive Board, will always give consideration to diversity including the aim for an appropriate degree of female representation.

BOARD MEETINGS 2016

The Executive Board held weekly meetings throughout the year, (except for bank holidays and planned annual leave) which were attended by all board members and ad-hoc meetings where required.

The Supervisory Board held a total of five meetings in 2016, which were attended by all members with the exception of the meeting held on 22 March 2016 where Thorsten Hehl was unable to attend due to a pre-agreed commitment.

BOARD SUPPORT

Both the Executive Board and the Supervisory Board (the 'Boards') are committed to appropriate and timely exchange of information both between the Boards and their relevant subcommittees. Members of both Boards have access to independent professional advice at the Company's expense whenever they judge such advice necessary to discharge their responsibilities as members of those Boards.

As a European public limited-liability company (an 'SE') with registered office in England and Wales, there is no requirement within UK company law or the Statutes of the Company to appoint a Company Secretary. The Executive and Supervisory Boards are further of the opinion that the appointment of a Company Secretary is not necessary to assist the Boards in ensuring compliance with board procedures and Corporate Governance Principles.

BOARD EVALUATION

The performance of the Executive Board and its individual members is regularly reviewed by the full Supervisory Board.

BOARD COMMITTEES

The Supervisory Board has established a Chairman's Committee and an Audit Committee (the 'Committees'), each consisting of three members of the Supervisory Board. The respective committee chairmen report regularly to the Supervisory Board on the work of the Committees. The Supervisory Board periodically reviews the adequacy of the committee structure with a view to setting up additional committees if the need arises.

CHAIRMAN'S COMMITTEE

The Chairman's Committee is responsible for preparation for Supervisory Board meetings, coordination of committee meetings and ongoing exchanges with the Executive Board on behalf of the Chairman of the Supervisory Board. The Chairman's Committee also performs the functions of nomination and remuneration committees.

The Committee meets as required. It held two meetings in 2016, which were attended by all members.

Details of the Group's internal control and risk management systems are included in the Audit Committee Report on pages 38 to 39 and disclosures required in relation to the takeover directive are included in the Directors' Report on pages 55 to 58.

Approval of the Corporate Governance Report
By order of the Executive Board and the Supervisory Board

Dr. Helmut Becker
Chief Executive Officer
23 March 2017

AUDIT COMMITTEE REPORT

The Audit Committee's overarching responsibility is to oversee internal and external audits and to monitor the effectiveness of the Company's framework of internal control.

More specifically, the Audit Committee oversees the monitoring of the Company's financial reporting process, the effectiveness of its internal control system, risk management system and internal audit process and the audit of the Group's financial statements.

In addition, the Audit Committee is responsible for ensuring that the external auditor maintains independence by approving any additional services proposed by the external auditor, reviewing the areas of increased audit focus proposed by the auditors and agreeing the audit fee. The external auditor can only be replaced and reappointed by the Audit Committee.

The members of the Committee that served during the year were:

Name	Appointment Date	Committee Role
Peter Steiner	28 June 2013	Chairman
Andreas de Maizière	28 June 2013	Member
Thorsten Hehl	28 June 2013	Member

Peter Steiner serves as Chairman of the Audit Committee. The Chairman has the required specialist knowledge and experience in both the application of accounting principles and internal control procedures to ensure that the Company's Corporate Governance Principles are complied with. He is independent and has not been a Member of the Executive Board in the last two years.

The Supervisory Board has satisfied itself that the members of the Committee have recent and relevant financial experience.

The Committee meets as required. The Audit Committee held a total of 12 meetings in the course of 2016 which were attended by all members. The Chief Financial Officer attends the Audit Committee's meetings. Members of the Supervisory Board and Executive Board or senior executives may attend meetings upon invitation from the Committee. The meetings in which the Committee reviewed and discussed the annual accounts for the year 2015 and the audit plan for 2016 were also attended by the external auditor, Ernst & Young LLP.

Following the appointment of Peter Steiner as Chairman of the Supervisory Board taking effect from the 2017 AGM, a new Audit Committee Chairman will be announced in advance of the AGM.

AUDIT COMMITTEE'S WORK IN 2016

The Audit Committee discharged its obligations in the year 2016 as follows:

- Review of the Annual Report and financial statements – including the report of the external auditor – for the year ended 31 December 2015 issued in March 2016,
- Review of the quarterly financial statements issued in May, August and November 2016,
- Deliberation about whether or not to recommend the reappointment of the external auditor,
- Review of the external audit plan in advance of the audit for the year ended 31 December 2016,
- Approval of the external audit fee and the effectiveness of the external auditor,
- Review of key accounting treatments and judgements taken throughout the year, and
- Review and monitoring of the effectiveness of the Group's risk management process.

EXTERNAL AUDITOR AND NON-AUDIT WORK

The external auditor has committed to immediately inform the Audit Committee of any threats to its independence or objectivity, unless such grounds are eliminated immediately. Additionally, the external auditor has committed to report to the Audit Committee on all facts and events of importance that should be brought to the attention of the Executive Board and Supervisory Board – this includes any impact on the Company's financial performance and compliance with the Company's Corporate Governance Principles.

The external auditor takes part in Audit Committee meetings on the annual consolidated financial statements and reports on the results of its audit.

Prior to submitting a proposal for election of an external auditor, the Supervisory Board or the Audit Committee will obtain a statement from the proposed auditor stating whether there are any business, financial, personal and other relationships that exist between the auditor, the Company and the members of its Board of Directors. This statement will be verified by the Audit Committee or Supervisory Board. These procedures are necessary to ensure that the independence of the external auditor is not called into question. This statement will include the extent to which other services were performed for the Company in the past year, especially in the field of consultancy, or which are contracted for the following year.

In addition, the Audit Committee has adopted a policy on the engagement of external auditors for the provision of non-audit services. The policy sets out controls intended to ensure that the independence of the external auditor is not impaired and stipulates:

- The nature of non-audit services that are permitted to be performed by the external auditor;
- Levels of authority for management to engage the external auditor for approved non-audit services; and
- That any non-audit services to be provided by the external auditor for a single project or specific services for fees in excess of €5,000 must be approved in advance by the Audit Committee.

Details of the amounts paid to the external auditor during the year for audit and other services are set out on page 85 of this Annual Report.

INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS

The Executive Board is responsible for ensuring appropriate risk management control procedures are in place. The Executive Board regularly conducts a review of the effectiveness of the Company's risk management and internal control systems. This review covers all material controls designed to respond to financial, operational and compliance risks. The Executive Board is satisfied that the Company had appropriate risk management and risk control procedures in place throughout the year and up to the date of approval of this Annual Report to prevent or detect any material exposures.

The internal control framework introduced by the management of the Company comprises principles, procedures and measures that are geared towards the organisational implementation of controlled management decisions and:

- To ensure the effectiveness and efficiency of business activities (including the protection of assets, including the prevention and disclosure of asset impairment),
- To ensure the quality and reliability of internal and external accounting, and
- To ensure compliance with the legal frameworks that the Company must adhere to, and
- To ensure that measures are in place that safeguard proper IT-based processing and data.

The following structures and processes have been implemented by ZEAL to respond to any risks in the accounting function:

- The Executive Board bears full responsibility for the internal control and risk management framework with regard to the accounting and consolidation processes.
- The reporting structure relating to all the companies included in the consolidated financial statements requires that significant risks are to be reported immediately to the Executive Board by the individual businesses on identification.
- The principles, structure and process organisation, and procedures of the accounting-related internal control and risk management system are documented in guidelines and organisational directives. These are regularly adapted to current external and internal developments for the respective segments.
- Certain accounting-related processes – in particular payroll accounting – are outsourced.

We consider the following items to be significant to the effectiveness of the internal control and risk management framework in the accounting and consolidation processes:

- Identification of significant risk and control areas of relevance to the Group-wide accounting process,
- Controls to monitor the consolidation process and its results at the level of the Executive Board and at the level of the companies included in the consolidated financial statements,
- Preventative control measures in the accounting system of the Group and in the processes that generate significant information used to prepare the consolidated financial statements – areas include the Group management report, segmental analysis and commitment disclosures,
- Reporting information of the foreign companies, which enable the parent company to prepare consolidated financial statements including the Group management report.

The Group has no formal internal audit department but the Executive Committee keeps under review the need for such a function.

Reviews of segmental results are performed by the Business Controlling team. The Business Controlling team is responsible for preparation of all monthly, quarterly and annual internal reporting packages. These reporting packages contain detailed analysis and review of operating results, balance sheet positions and cash related movements compared to budgeted, forecasted and comparative results. The end users of the reporting packages are the Audit Committee and Board of Directors. These stakeholders require detailed narrative containing explanation of all movements based on benchmarks set out above.

Peter Steiner
Member of the Supervisory Board and
Chairman of the Audit Committee
23 March 2017

DIRECTORS' REMUNERATION REPORT

CHAIRMAN OF THE COMMITTEE'S ANNUAL STATEMENT

Dear Shareholder,

I act as the Chairman of the Chairman's Committee of the Supervisory Board. The Chairman's Committee, in its function as remuneration committee, regularly reviews the Executive Board compensation system, as laid out in the remuneration policy, and the individual compensation of the Executive Board members, and submits its proposals to the full Supervisory Board, which resolves on any amendments. The Chairman's Committee and the full Supervisory Board aim to ensure that remuneration arrangements for the Executive Board members enable their recruitment, motivation and retention as well as support the strategic aims of the Company. Any proposed changes to the remuneration policy are submitted for approval at the next AGM.

I am pleased to present below the Directors' remuneration report for the financial year ended 31 December 2016. I have summarised the Company's performance for the current financial year, the impact that this performance has had on the remuneration of the Executive Board members and summarised the new remuneration policy effective for the 2016 financial year and thereafter as approved by the shareholders at the June 2016 AGM.

Remuneration policy

We submitted an updated remuneration policy covering the remuneration of the Executive Board members effective 1 January 2016 for shareholder approval at the AGM on 22 June 2016. The remuneration policy was strongly supported by our shareholders and ratified at that time.

We will submit the remuneration policy for shareholder approval every three years unless a change in the policy is proposed.

Performance and outcome

For the year ended 31 December 2016, the Company delivered strong year-on-year normalised revenue, normalised EBIT and statutory revenue growth. The updated remuneration policy effective for the 2016 financial year saw the Executive Board members achieve their short-term incentive (STI) bonus targets and their transitional incentive targets. Mid-term incentives (MTI) were discontinued and no long-term incentives (LTI) vested during the period. Payments for STIs awarded for the 2016 period were made to the Executive Board members in March 2017.

Chairman's Committee changes and attendance at meetings during 2016

There have been no changes to the Chairman's Committee since 31 December 2014. The Committee comprises Oliver Jaster and Jens Schumann and is chaired by Andreas de Maizière. All Committee members attended all meetings during the course of the year. Meetings in the 2016 financial year were held on 21 March 2016 and 12 September 2016.

Andreas de Maizière
Chairman of the Chairman's Committee
23 March 2017

REMUNERATION AT A GLANCE

The table below sets out details of the total remuneration to the Executive Directors of the Company:

in €k	Fixed Pay		Variable pay				Total compensation		
Name	Base Pay	Retirement and other benefits	Short-term incentives	Mid-term incentives	Long-term incentives[3]	Transitional incentives	**2016**	2015	Change %
Dr. Helmut Becker (Chief Executive Officer)[1]	605	12	386	–	92	276	1,371	1,006[1]	36%
Jonas Mattsson (Chief Financial Officer)	425	12	274	–	164	202	1,077	982	10%
Susan Standiford (Chief Technology Officer)	399	12	258	–	193	157	1,019	713	43%
Dr. Hans Cornehl (Chief Executive Officer – 1 January 2015 to 31 August 2015)[2]	–	–	–	–	–	–	–	1,733	–

[1] *Dr. Becker's 2015 base salary was €350k between 1 January 2015 until 31 August 2015 and €550k between 1 September 2015 and 31 December 2015 (on his ascension to role of CEO).*
[2] *Dr. Cornehl stepped down from the Executive Board on 31 August 2015.*
[3] *Long-term incentives relate to cash settled share based payments provided for in the 2016 financial year. During the year, an amount of €272k was paid to Dr. Becker related to long-term incentives, which had vested prior to 2016.*

REMUNERATION POLICY

This report complies with the requirements of the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended) (the 'regulations') and the provisions of the UK Corporate Governance Code relating to remuneration. The format and content take into account the Directors' Remuneration Reporting Guidance of the GC100 and the Investor Group, together with other guidance issued by institutional investor and governmental bodies.

REMUNERATION POLICY

It is intended that the remuneration policy will be put to shareholder vote every three years unless there are changes in the policy, which require separate approval. The new remuneration policy introduced in the 2015 Annual Report was approved by the Supervisory Board in December 2015 and took effect from 1 January 2016. The policy was ratified by the shareholders at the AGM on 22 June 2016 when it was approved with 96.32% share of the votes (votes for: 2,973,400; votes against: 113,661; abstentions: 1,051). The new policy is detailed below.

ROLE OF THE REMUNERATION COMMITTEE

In accordance with section 4.3 of the Company's Corporate Governance principles (available on the Company's website), the Chairman's Committee is responsible for recommending the compensation each Executive Director receives for their services to the Company. The Committee is also responsible for setting the Company's remuneration strategy together with the structure of Executive Directors' remuneration including the split of compensation between fixed and variable elements. From 1 January 2016, the remuneration of the Executive Board will be reviewed every two years. In reviewing the pay arrangements of the Executive Board, the Chairman's Committee takes into account:

- The growth of the Company during the preceding period together with forecasted growth in future periods,
- The Company's performance relative to other companies operating within the same sector,
- The Company's place of incorporation (UK) and associated stakeholder expectations,
- The general external environment and the market context for executive pay.

The Company's remuneration policy is in no way designed to reward inappropriate outcomes or excessive risk.

For the avoidance of doubt, it is the Company's intention to honour in full any pre-existing obligations that have been entered into prior to the effective date of this statement. Therefore, the Chairman's Committee reserves the right to make any reasonable remuneration payments and payments for loss of office so long as these have been approved by the Supervisory Board.

REMUNERATION PHILOSOPHY

The Company's remuneration philosophy is to ensure that all employees are rewarded fairly based on the contribution they make to the Company's success. The Chairman's Committee believes that setting remuneration levels based on employees' performance is the most effective method of fulfilling the Company's objective of attracting, retaining and motivating its individuals. The key elements of executive remuneration are fixed pay – including base salary and certain benefits – and short-term (one year performance period) and long-term incentives (three year performance period).

Base pay and benefits are generally fixed costs for the Company. These elements of executive remuneration are set at the market median and are not subject to in-year fluctuation resulting from employee or Company performance. Short-term incentives are paid following each financial year end and are designed to reward achievement of pre-determined financial and other performance targets including achievement of each individual's personal performance targets (which are normally linked to delivery of the Company's strategic aims). Long-term incentives are paid at the end of each three-year interval and are based on the achievement of a pre-determined average share price over a predefined period.

As certain elements of Executive Director variable compensation are based on adjusted key performance indicators (such as normalised revenue and normalised EBIT), extensive diligence is performed on the financial results in advance of any pay-out to ensure that compensation is accurately computed. Results of this diligence is compared to expected levels of pay to ensure that payments are appropriate when compared to business performance and expected shareholder returns.

ALIGNMENT OF STRATEGY, PAY AND PERFORMANCE

One of the Company's key strategic aims is to deliver a high return to its shareholders. This strategic aim is embodied in the determination of Executive Director reward under the short-term and long-term incentive plans. Typical measures of achievement of our strategic priorities include normalised revenue and normalised EBIT growth (STI plans) and pre-defined share price targets (LTI plan).

REMUNERATION POLICY EFFECTIVE 1 JANUARY 2016

The new remuneration policy described below was approved by the Supervisory Board in December 2015 and took effect from 1 January 2016. The policy was ratified by the shareholders at the AGM on 22 June 2016. Contracts representing acceptance of the changes were signed by all Executive Directors in advance of 31 December 2015.

Base salaries will be reviewed every two years. Separately, the Chairman's Committee has authorised an automatic 10% increase in base salary to all Executive Directors if 10% of the Director's base salary is invested in the Company's shares. The Executive Directors undertake to hold the investment for a minimum period of three financial years commencing on 1 January of the financial year.

From 1 January 2016, short-term incentives represent 25% of the overall remuneration package for all Executive Directors (based on 100% achievement of short-term incentive targets). Target achievement is measured based on pre-determined financial and non-financial targets. Assessment of target achievement will be reviewed on an annual basis (January or February of the following period) and equal weighting will be given to the targets noted above. Over-achievement of targets is permitted under the policy but any short-term incentive will be capped at the total base salary level (if 200% STI target incentive is obtained).

Long-term incentives granted to the CFO and CTO between 1 January 2015 and 31 December 2017, are calculated under the remuneration policy that existed at 31 December 2015. In addition a new remuneration policy effective 1 January 2016 was approved at the AGM on 22 June 2016. The full Executive Board comprising the CEO, CFO and CTO are entitled to participate in the new plan. As such, the CFO and CTO participated in both schemes during 2016. The long-term incentives within the new remuneration policy have been designed to represent 25% of the overall remuneration package for all Executive Directors (based on 100% achievement of long-term incentive targets). Target achievement will be measured based on pre-determined Earnings per Share (EPS) and Total Shareholder Return (TSR) levels. Assessment of target achievement will be reviewed at the end of every three-year cycle (January or February of the following period) and equal weighting will be placed on the targets noted above. A monetary value will be computed based on average achievement of the pre-defined LTI targets over the three year performance period. This monetary value will be converted into an associated number of shares based on the average share price during a pre-determined period (generally a three month period immediately preceding the commencement of the three year performance period). The LTI payment made to each Executive Director following completion of the three year performance period will amount to the cash equivalent of the number of notional shares granted multiplied by an average share price during a separate pre-defined time period towards the end of the performance period. This method of remuneration allows each Executive Director to be fairly compensated based on the performance of the Group over the performance period. Over-achievement of targets is permitted under the policy and the quantum of LTI payment will be based on the performance of the Group as a whole over the three year period.

As part of the new remuneration policy, the mid-term incentive scheme for Executive Directors has been discontinued. Any benefits accruing to Executive Directors as part of their mid-term performance were split between the revised STI and LTI schemes. MTI payments accruing to the date of termination of this incentive scheme were detailed in the 2015 remuneration report and were paid out in March 2016.

In addition to the remuneration earned from 1 January 2016, the revised remuneration policy recommends Executive Directors to invest 10% of their gross salary in the Company's listed shares. This recommendation ensures that Executive Director's compensation is aligned with shareholder returns. While this requirement is not mandatory, all Executive Directors have committed to such an investment from 1 January 2016 for a minimum of two years.

TRANSITION TO THE NEW REMUNERATION POLICY

As noted above, the MTI policy has been discontinued as part of the new remuneration arrangements. Transition payments for 2016 and 2017 were authorised by the Chairman's Committee for both the CFO and CTO during 2015 to compensate them for the discontinuance of the scheme (CFO: £232,400 (£116,200 per annum) for 2016 and 2017; CTO: £180,526 (£90,263 per annum) for 2016 and 2017). Under the same arrangements, the CEO is entitled to transition payments of €550,500 (2016: €196,429; 2017: €196,429; 2018: €157,142). The above amounts are based on 100% target achievement and could change based on outturn for each financial year in question. Where payments will be made in GBP, the Euro amounts have not been disclosed above, but will be disclosed in future reports when the Euro/GBP exchange rate at the date of payment is known.

REMUNERATION POLICY TABLE

While there have been changes to the Executive Directors' remuneration policy effective 1 January 2016, there have been no changes to the Company's view of the necessity to align pay to performance, business strategy and the overarching goal to create value for the Company's shareholders.

Base salary	Executive Directors
Purpose and link to strategy	Facilitate recruitment and retention of the best executive talent globally. Executives with the experience and expertise to deliver our strategic objectives at an appropriate level of cost.
Maximum opportunity	Base salary increases will not ordinarily exceed those for other UK-based ZEAL employees with comparable levels of individual performance and potential. In cases where an Executive Director's base salary lies materially below the appropriate market competitive level, and where such positioning is not sustainable in the view of the Supervisory Board, annual increases may exceed those for other employees described above. The rationale for any such increase will be described in the Annual Report on remuneration for the relevant year.
Operation	From 1 January 2016, base salary levels of Executive Directors will be reviewed every two years. A number of factors are considered including, but not limited to, market pay levels among international industry peers, and base salary increases for other ZEAL employees. Additionally, an increase of 10% of base salary will be automatically applied if the Executive Director purchases shares in the Company totalling at least 10% of base salary.
Performance measures	None

Retirement and other benefits	Executive Directors
Purpose and link to strategy	Provide market competitive benefits at an appropriate cost, which help foster loyalty and retention. Relocation benefits and sign-on bonuses may also be provided based on business need, individual circumstances and location of employment.
Maximum opportunity	The Supervisory Board retains discretion to approve a higher cost in exceptional circumstances or where factors outside the Company's control have changed materially. In the case of relocation, additional benefits may be provided, including but not limited to, cost of relocation expenses, real estate fees, tax equalisation to home country and tax return filing assistance. The Supervisory Board has discretion to determine the value of such benefits and details of any such benefits provided will be disclosed in the Annual Report on remuneration covering the year in which they were provided.
Operation	Executive Directors are eligible to receive benefits in line with those for other UK employees, including, but not limited to, services to assist with preparation of tax returns where necessary due to the international nature of work completed.
Performance measures	None

Short-term and long-term incentive plans	Executive Directors
Purpose and link to strategy	Motivate Executive Directors to achieve stretched financial and commercial objectives consistent with and supportive of the Company's growth plans. Create a tangible link between annual performance and individual pay opportunity.
Maximum opportunity	The Supervisory Board retains discretion to adjust the overall incentives to take account of performance over and above expectations. **Short-term incentive** Awards of up to 200% can be granted (based on pre-defined criteria and ratification of successful completion by the Supervisory Board) in respect of any financial year. The annual STI bonus will be limited to a maximum equal to each Executive Director's annual base salary. **Long-term incentive** For periods commencing 1 January 2016, the annual LTI bonus entitlement has been designed to be limited to a maximum equal to each Executive Director's annual base salary. Where the share price at vesting is greater than 100% of the base salary divided by the number of shares granted under the LTI scheme, the amount paid to each Executive could exceed 100% of base salary. As such, the LTI bonus pay-out at the end of each three year period has been designed to not exceed three times the Executive Director's base salary at date of grant apart from the circumstances described above. Further detail of the computation of LTIs is included in section 'Changes to remuneration policy from 1 January 2016' above. **Supplementary bonus** In previous periods, a 'supplementary bonus' was possible if specific commercial goals are achieved. This supplementary bonus arrangement has been discontinued from 1 January 2016.
Operation	Awards in respect of performance up to 100% above target are paid in cash.
Performance measures	Performance metrics include: ▪ Financial goals (which determine a significant portion of the bonus each year), ▪ Commercial goals, and ▪ Organisational goals. The annual bonus performance measures are chosen to provide an appropriate balance between incentivising Executive Directors to meet financial targets for the year and to deliver specific strategic, operational and individual goals. This balance allows the Chairman's Committee to effectively reward performance against key elements of our strategy. The precise bonus targets are set by the Supervisory Board each year in the case of the STI scheme to ensure that Executive Directors are appropriately focused on the key objectives for the next twelve months. For the LTI schemes, targets are set by the Supervisory Board for at least the following three years (note that from 1 January 2016, the MTI scheme was discontinued). In doing so, the Supervisory Board takes into account a number of internal and external reference points, including the Company's business plan. For financial metrics, performance is set in line with the annual budget. Full details of performance measures and targets are disclosed in the Annual Report on remuneration following expiration of the relevant performance period, except where the Supervisory Board considers them to be commercially sensitive. In cases where details are commercially sensitive, the Supervisory Board will explain its rationale and commit to disclosure in the future where appropriate.

Termination arrangements	Executive Directors
Purpose and link to strategy	To limit the Company's liability for payments in cases of termination, and to provide a fair and equitable settlement where appropriate.
Maximum opportunity	The Company will provide twelve months' notice of termination or payment in lieu of notice. Termination payments will be limited to base salary that would have been received during the twelve month notice period, any STI bonus that the Director would have received during or in respect of the notice period of twelve months, any transition payments that would have been payable during the notice period, any LTI bonuses that would have matured during the notice period, any LTI bonuses that would have been awarded but had not yet matured making the assumption that the targets thereunder would have been achieved 100%. In addition to the payments above, each Director is entitled to a further severance payment of two times his/her annual salary if a settlement agreement is entered into by both parties. Effective 1 January 2016, change of control clauses have been removed from all Executive Directors' contracts.

	Supervisory Board (Chairman's Fee)
Purpose and link to strategy	The Chairman of the Supervisory Board has the appropriate balance of skills, experience, independence and knowledge of the Company to discharge his respective duties and responsibilities effectively.
Maximum opportunity	The Chairman of the Supervisory Board receives for every full financial year a fixed annual remuneration of €136.5k and for membership of one or several committees of the Supervisory Board, the Chairman of the Supervisory Board receives an additional annual remuneration up to €35k.
Operation	Fees are provided entirely in cash. The Supervisory Board remuneration is set in the Statutes of the Company and is subject to amendment by shareholder resolution.
Performance measures	None

	Supervisory Board
Purpose and link to strategy	The Supervisory Board and its committees should have the appropriate balance of skills, experience, independence and knowledge of the Company to enable them to discharge their respective duties and responsibilities effectively.
Maximum opportunity	The Members of the Supervisory Board receive for every full financial year a fixed annual remuneration of €45.5k. The remuneration is multiplied by 2 in respect of the deputy Chairman of the Supervisory Board. For their membership of one or several committees of the Supervisory Board, Members of the Supervisory Board receive an additional annual remuneration of €17.5k. The remuneration is multiplied by 2 in respect of a Chairman of a committee.
Operation	Fees are provided entirely in cash. The Supervisory Board remuneration is set in the Statutes of the Company and is subject to amendment by shareholder resolution.
Performance measures	None

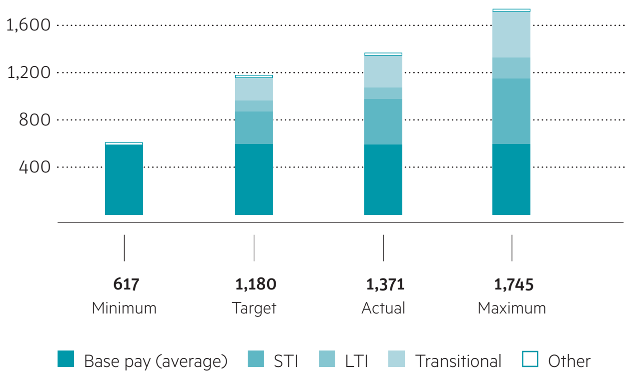
INDICATIVE REMUNERATION LEVELS RESULTING FROM POLICY

The graphs below represent the pay mix between the different elements of remuneration for the CEO, CFO and CTO, assuming minimum, target, actual and maximum performance. The scenarios shown below are based on the following assumptions:

- Minimum performance fixed pay only (base salary and pensions),
- Target performance: fixed pay and annual bonus of half maximum opportunity (100%), and
- Maximum performance: fixed pay, maximum annual bonus of 200%. Note that this scenario assumes maximum performance is achieved under both the annual bonus and the long-term incentive plans.

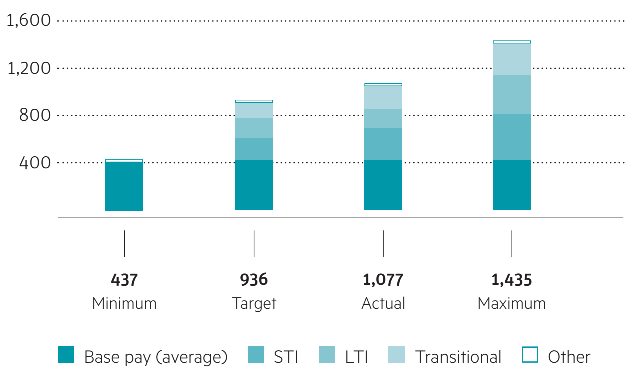
DR. HELMUT BECKER

in €k



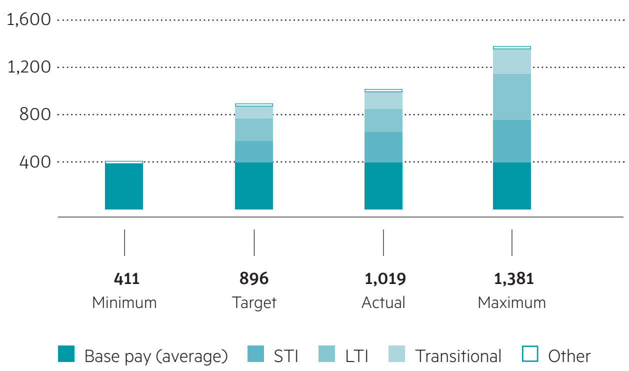
JONAS MATTSSON

in €k



SUSAN STANDIFORD

in €k

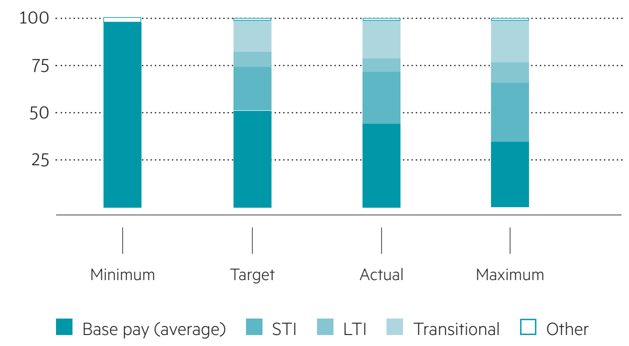


Percentage of total remuneration

The percentage of total remuneration by each compensation line based on minimum, target, actual and maximum performance (as described above) is included below.

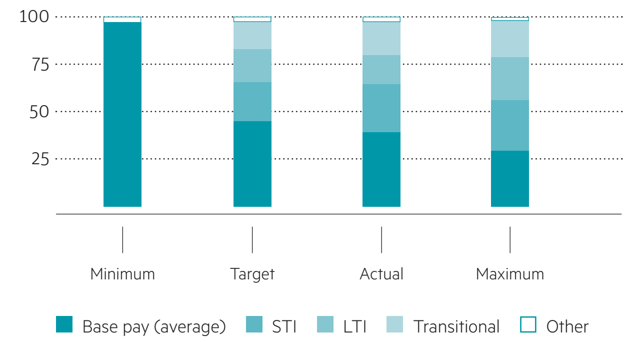
DR. HELMUT BECKER

in %



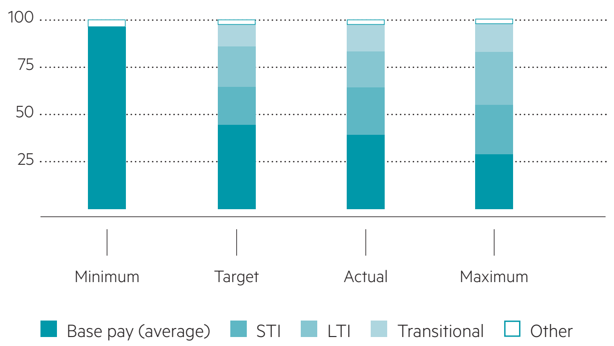
JONAS MATTSSON

in %



SUSAN STANDIFORD

in %



The scenarios above assume fixed values for base pay, retirement and other benefits. Variable pay elements are based on current bonus opportunities. Assumptions for each scenario are included in the table below.

Dr. Helmut Becker	Base Pay	Retirement and other benefits	Other payments (non-recurring)	Short-term incentives	Long-term incentives	Transitional incentives	**Total**
in €k							
Minimum	605	12	–	–	–	–	**617**
Target	605	12	–	275	92	196	**1,180**
Actual	605	12	–	386	92	276	**1,371**
Maximum	605	12	–	550	184	394	**1,745**

Jonas Mattsson	Base Pay	Retirement and other benefits	Other payments (non-recurring)	Short-term incentives	Long-term incentives	Transitional incentives	**Total**
in €k							
Minimum	425	12	–	–	–	–	**437**
Target	425	12	–	193	164	142	**936**
Actual	425	12	–	274	164	202	**1,077**
Maximum	425	12	–	386	328	284	**1,435**

Susan Standiford	Base Pay	Retirement and other benefits	Other payments (non-recurring)	Short-term incentives	Long-term incentives	Transitional incentives	**Total**
in €k							
Minimum	399	12	–	–	–	–	**411**
Target	399	12	–	182	193	110	**896**
Actual	399	12	–	258	193	157	**1,019**
Maximum	399	12	–	364	386	220	**1,381**

Long-term incentives relate to cash settled share based payments provided for in the 2016 financial year. No Long-term incentives vested during the year.

RECRUITMENT OF DIRECTORS

ZEAL Network SE is an international company and competes for executive talent on a global basis. In order to recruit and retain Directors of the calibre needed to execute the Company's growth objectives it is necessary to provide remuneration and benefits consistent with that provided by other Internet-based companies. The following principles apply to the external recruitment of Directors and the appointment of internal candidates who may be promoted to the Executive Board or Supervisory Board:

- As far as possible, the remuneration of new Directors will be set in accordance with the existing Directors' remuneration principles described in the table above.
- The Supervisory Board will seek to pay no more than is necessary while ensuring that it can attract the best candidates.
- The remuneration package provided will take account of a range of factors including but not limited to the calibre of a candidate, the level of existing remuneration, the jurisdiction the candidate is recruited from, and the individual's skills and experience.
- The remuneration package will take account of comparable internal remuneration and appropriate international market comparisons.
- The Supervisory Board has the discretion to determine the fixed elements of a remuneration package (comprising base salary, retirement and other benefits) as it deems necessary in the interests of the shareholders. Exercise of such discretion may be necessary for example in the event of a new appointment to the Executive Board following an acquisition or where commitments have been made as part of a transaction. The Supervisory Board will in all cases be guided by reasonable market practice and will take appropriate advice where necessary.

SERVICE CONTRACTS

Service contracts govern the Company's relationship with the Executive Directors. Supervisory Board Members are appointed by shareholder resolution and their compensation is set by the Statutes.

All Executive Directors' service contracts are available for inspection at the Company's registered office during normal hours of business, and at the place of the Company's 2016 AGM.

EXECUTIVE BOARD

All three Executive Board members, Dr. Helmut Becker, Jonas Mattsson and Susan Standiford signed revised contracts, effective 1 January 2016, which have indefinite terms.

SUPERVISORY BOARD

Details of the service contracts held between the Company and the Supervisory Board, including date of commencement, date of expiry and the term of each contract are detailed below:

Supervisory Board	Commencement of service	Expiry of service	Contract term
Andreas de Maizière	22 June 2016	21 June 2018	2 years
Peter Steiner	22 June 2016	21 June 2018	2 years
Oliver Jaster	22 June 2016	21 June 2018	2 years
Thorsten Hehl	22 June 2016	21 June 2018	2 years
Bernd Schiphorst	22 June 2016	21 June 2018	2 years
Jens Schumann	22 June 2016	21 June 2018	2 years

REMUNERATION OF SUPERVISORY BOARD MEMBERS

In addition to the reimbursement of their expenses, the Members of the Supervisory Board receive a fixed annual remuneration of €45.5k for every full financial year served in that capacity (€136.5k for the Chairman and €91k for the deputy Chairman).

For every membership of a committee of the Supervisory Board, Members of the Supervisory Board shall receive an additional annual remuneration of €17.5k (or €35k for the Chairman).

This represents the end of the report on the Company's remuneration policy.

AUDITED INFORMATION

EXECUTIVE DIRECTORS' EMOLUMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

The following table sets out the total remuneration for Executive Directors for the year ended 31 December 2016:

Executive Directors	Year	Total salary (a)	Retirement and other benefits (b)	Other payments – non-recurring	LTI award[5] (c)	MTI award (d)	STI award (e)	Transi-tional awards (f)	Total	LTI award accrued during the year[6]
in €k										
Dr. Helmut Becker	2016	605	12	–	–	–	386	276	**1,279**	92
Dr. Helmut Becker	2015	447	–	–	272	64	223	–	**1,006**	–
Jonas Mattsson	2016	425	12	–	–	–	274	202	**913**	164
Jonas Mattsson	2015	326	–	28[1]	–	274	354	–	**982**	–
Susan Standiford	2016	399	12	–	–	–	258	157	**826**	193
Susan Standiford	2015	247	–	115[2]	–	216	135	–	**713**	–
Dr. Hans Cornehl	2016	–	–	–	–	–	–	–	**–**	–
Dr. Hans Cornehl[3]	2015	267	–	166[4]	900	200	200	–	**1,733**	–

[1]Mr Mattsson's other payments relate to relocation costs and a sign-on bonus.
[2]Mrs Standiford's other payments relate to relocation costs and a sign-on bonus.
[3]Dr. Cornehl resigned from the Company during 2015. His departure date was 31 August 2015.
[4]Dr. Cornehl's other payments relate to statutory redundancy pay together with payment of his pre-existing gross salary (€400k) between the date of his departure (31 August 2015) and 31 December 2015.
[5]This amount represents the value of long-term incentive plans with a performance period ending in the relevant year.
[6]Long-term incentives relate to cash settled share based payments provided for in the 2016 financial year.
No long-term incentives vested during the year.

METHODOLOGY

The different components of the updated remuneration policy effective 1 January 2016 are summarised below:

(a) Total salary – this represents the base salary for the relevant financial year (basic gross fixed remuneration). No sums were paid to third parties in respect of any Executive Board Member's services.

(b) Retirement and other benefits – Executive Directors receive a cash allowance in lieu of pension contributions equivalent.

(c) Long-term incentives – this figure represents the value of long-term incentive plans with a performance period ending in the relevant year. LTI plans cover a three year cycle and are based on two performance conditions (with equal weighting) with the three year target defined in advance:

1. EPS ('Earnings per share') - EPS calculation is defined as annual average of EPS for three years and shall be calculated using the following formula: EPS = Net Profit / Shares Outstanding
2. TSR ('Total Shareholder Return') - Total Shareholder Return shall be based on TSR throughout the three year period and shall be calculated using the following formula TSR = (Price End – Price Start + Dividends) / Price Start

LTIs shall be paid in the cash equivalent value of the number of shares as determined in accordance with the terms of reference above. Payment will be made within one month after the end of the three year period to which the LTI relates.

(d) Mid-term incentives – were discontinued from 1 January 2016.

(e) Short-term incentives – this figure represents the value of short-term incentive plans with a performance period ending in the relevant year. The Executive Board Members are entitled to an annual performance related bonus, the amount of which is based on achieving short-term financial and non-financial targets. The financial targets are economically focused objectives such as net profit, revenue or cash flows. The non-financial targets are strategically focused objectives such as implementation of an appropriate organisational setup to reflect the corporate strategy or implementation of growth initiatives. The Supervisory Board is responsible for assessing achievement of targets at the end of each financial year and computation of STI payable to the Executive Board.

(f) Transitional incentives – this represents the value of transitional incentives that the Executive Board members are entitled to, subject to certain targets being met, to compensate them for the discontinuance of awards available under the previous remuneration policy. The transitional incentives relate to the years 2016 to 2018 only and expire thereafter.

PAYMENTS TO PAST DIRECTORS AND PAYMENTS FOR LOSS OF OFFICE

There were no termination payments or payments for loss of office during the year.

NON-EXECUTIVE DIRECTORS' EMOLUMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

The following table sets out the total remuneration for non-executive Directors (members of the Supervisory Board) for the year ended 31 December 2016:

Supervisory Board	Year	Total fees	Other remuneration	**Total**
in €k				
Andreas de Maizière	2016	172	7	**179**
Andreas de Maizière	2015	172	19	**191**
Peter Steiner	2016	126	9	**135**
Peter Steiner	2015	126	13	**139**
Oliver Jaster	2016	63	4	**67**
Oliver Jaster	2015	63	3	**66**
Thorsten Hehl	2016	63	2	**65**
Thorsten Hehl	2015	63	3	**66**
Bernd Schiphorst	2016	46	4	**50**
Bernd Schiphorst	2015	46	1	**47**
Jens Schumann	2016	63	1	**64**
Jens Schumann	2015	63	4	**67**

DIRECTORS' INTERESTS IN SHARES

Details of the Directors' share interests as at 31 December 2016, or at date of cessation of Directorship, are as follows:

Beneficially owned		2015	Changes	**2016**
Shares				
Dr. Helmut Becker[1]	CEO	1,392	–	**1,392**
Jonas Mattsson[1]	CFO	–	1,000	**1,000**
Susan Standiford[1]	CTO	–	950	**950**
Oliver Jaster[1] indirect	Member of the Supervisory Board	857,334	–	**857,334**
Jens Schumann[1]	Member of the Supervisory Board	350,000	(100,000)	**250,000**

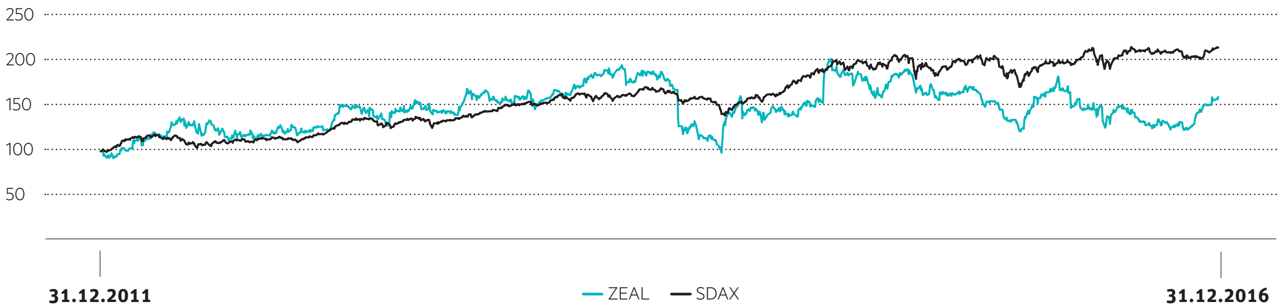
[1] *The following dividends were paid to each of the Directors during the 2016 financial year: Dr. Helmut Becker – €3,898 (2015: €nil), Jonas Mattsson – €2,800 (2015: €nil), Susan Standiford – €1,995 (2015: €nil), Oliver Jaster – €2,400,535 (2015: €2,987,491) and Jens Schumann – €840,000 (2015: €980,000).*

This represents the end of the audited section of the report.

HISTORICAL TSR PERFORMANCE AND CEO REMUNERATION OUTCOMES

As the Company's shares are listed in the German SDAX index, the SDAX provides an appropriate indication of market movements against which to benchmark the Company's performance. The chart below summarises the Company's total shareholder return ('TSR') performance against the SDAX index over the five-year period to 31 December 2016.

5-YEAR TSR PERFORMANCE



We also present in the table below the annual change in the single figure total remuneration provided to the Company's CEO over the same period.

	2012	2013	2014	2015	**2016**
in €k	Dr. Cornehl	Dr. Cornehl	Dr. Cornehl	Dr. Becker	Dr. Becker
Total remuneration	993	919	798	1,006	**1,279**
Short-term incentives (% of maximum)	64.8%	65.5%	40.0%	63%	**70%**
Mid-term incentives (% of maximum)	N/A	25.3%	9.6%	18%	**N/A**
Long-term incentives (% of maximum)	N/A	N/A	N/A	98%	**50%**
Transitional incentives (% of maximum)	N/A	N/A	N/A	N/A	**70%**

PERCENTAGE CHANGE IN REMUNERATION OF THE CHIEF EXECUTIVE OFFICER

The following table shows the percentage change in remuneration comprising basic salary, benefits and bonus between the financial year ended 31 December 2015 and the financial year ended 31 December 2016 for the CEO compared to the average of all UK ZEAL Group employees. Given the global nature of ZEAL's operations, and the diverse pay markets in which our employees operate, the UK employees were deemed to provide the most appropriate comparator to the Chief Executive.

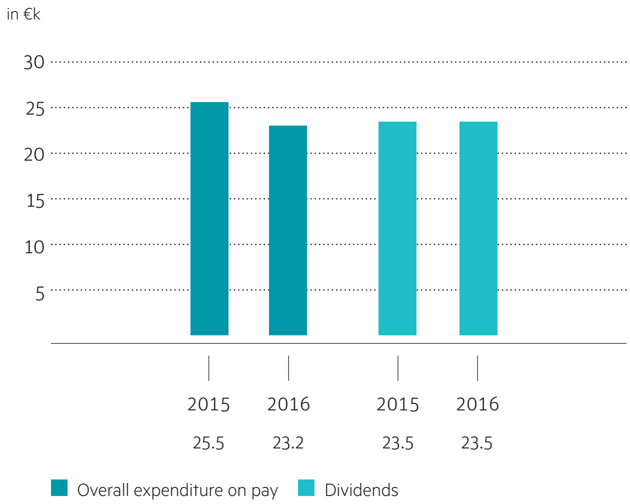
	% change in base salary 2016/2015	% change in annual bonus 2016/2015
CEO	35	73
All colleagues	23	39

Andreas de Maizière
Chairman of the Supervisory Board and
Chairman of the Chairman's Committee

RELATIVE IMPORTANCE OF THE SPEND ON PAY

The chart below illustrates the current-year and prior-year overall expenditure on pay and dividends paid. The figures presented have been calculated on the following bases:

- Overall expenditure on pay – represents total staff costs.
- Dividends – dividends paid (or declared to be paid) in respect of the year.



DIRECTORS' REPORT

The Directors of ZEAL Network SE present their Annual Report and audited financial statements for the year ended 31 December 2016. These financial statements have been prepared under IFRS (as adopted by the EU) and are available on the Company's website: zeal-network.co.uk

GENERAL COMPANY INFORMATION

The Company was incorporated in Germany in 1999 and transferred its registration to the UK in February 2014. The Company is a European public limited-liability company (a 'Societas Europaea' or SE) and is registered in England and Wales under the company number SE000078. Until November 2014, the Company operated under the name Tipp24 SE.

The Company is listed on the Frankfurt (FSE: TIM.DE) Stock Exchange (Regulated Market, Prime Standard, ISIN GB00BHD66J44) and is a member of the German SDAX index. Further information on the principal activities of the business and the factors affecting future developments are detailed in the Group's Strategic Report set out on pages 1 to 31.

BRANCHES OUTSIDE THE UK

The Company has two branches registered overseas including Lottovate Limited – German Branch and eSailors IT Solutions Limited – German Branch.

FUTURE DEVELOPMENTS

The Company's objective is to create a better world of lottery. A world that our customers, business partners and employees deserve. The key aspects of the Group's strategy are set out in the Strategic Report on pages 1 to 31.

DIVIDENDS

During 2016, dividends of €2.80 per share were paid on a quarterly basis (€0.70 per share at the end of each quarter).

For proceeding periods, the Executive Board has proposed, and the Supervisory Board has approved, a dividend policy under which the Company will pay annual dividends, which are expected to amount to a total of at least €1.00 per share in 2017.

An announcement of the amount of each dividend, and the record date for entitlement to the dividend, will be made in advance of payment of the dividend.

RESEARCH AND DEVELOPMENT

The Company engaged in research and development activity during 2016 with a view to expanding its existing product offering. None of the costs incurred met the definition of development costs under IAS 38 'Intangible assets'. Consequently, none of these costs was capitalised.

POLITICAL DONATIONS AND POLITICAL EXPENDITURE

No political donations or political expenditure was incurred during 2016.

POST BALANCE SHEET EVENTS

POST BALANCE SHEET EVENTS

On 25 January 2017, it was resolved that Peter Steiner will be appointed as Chairman of the Supervisory Board with effect from the resignation of Andreas de Maizière as member and Chairman of the Supervisory Board as of the 2017 AGM.

In March 2017, in a secondary lottery held by MyLotto24 Limited, a fully consolidated minority shareholding of ZEAL Network SE, a player has won a prize of approximately €15m. The pay-out amount falls within the self-retention specified in MyLotto24's hedging instruments.

There were no other material subsequent events that required adjustment or disclosure in the financial statements.

DIRECTORS

The Directors that served during the year and were in office at 31 December 2016, together with their biographies, are listed on pages 34 to 35 of this report.

POWERS OF DIRECTORS

The Executive Board is authorised, subject to the approval of the Supervisory Board, to allot ordinary shares. It is also duly authorised to grant rights to subscribe for, or to convert any security into, ordinary shares ('Subscription or Conversion Rights') up to an aggregate nominal amount of €1,197,017. This authority will expire on 28 June 2017 unless the Company enters into offers or agreements before this date, which would require ordinary shares to be allotted or Subscription or Conversion Rights to be granted after the expiry date. In this case, the Directors are unconditionally authorised to allot, subscribe or convert shares in accordance with the terms of any such agreement entered into.

DIRECTORS' REMUNERATION AND INTERESTS

Directors' remuneration and interests are detailed in the Directors' Remuneration Report on pages 40 to 54 of this report. Material interests in any contract of significance with any Group company during the year ended 31 December 2016 are set out in note 28 to the consolidated financial statements.

DIRECTORS' THIRD-PARTY INDEMNITY PROVISIONS

Each of the Members of the Executive Board and Supervisory Board and majority of the Directors of the subsidiary companies have been provided with a qualifying third-party indemnity from the Company. The Company maintains Directors' and officers' liability insurance.

ELECTION AND RE-ELECTION OF DIRECTORS

In accordance with the Corporate Governance Principles, all Members of the Supervisory Board will be re-elected at regular intervals, subject to continued satisfactory performance.

EMPLOYMENT, ENVIRONMENTAL AND SOCIAL POLICIES

The Group's employment, environmental and social policies are set out on pages 30 to 31.

FINANCIAL INSTRUMENTS

The Group's financial risk management policies, and exposures to risk – especially credit risk, liquidity risk and cash flow risk – can be found in note 30 to the consolidated financial statements.

PURCHASE OF OWN SHARES

ZEAL is currently not authorised to acquire its own shares.

MAJOR SHAREHOLDINGS

Details of major shareholdings are provided on page 32 of this Annual Report.

SHARE CAPITAL

Details of the movements in the authorised and issued share capital are set out in note 22 to the consolidated financial statements. The rights and obligations attaching to the Company's ordinary registered shares of the Company are set out in the Company's Statutes.

VOTING RIGHTS AND RESTRICTIONS ON THE TRANSFER OF SHARES

There are no ordinary registered shares that carry special rights in relation to the control of the Company. A shareholder register (electronic register of CI Holders) is established and maintained by the Company.

CORPORATE SOCIAL RESPONSIBILITY

ZEAL is a socially responsible company committed to its stakeholders. We adopt a holistic approach to our decision-making process, ensuring that we give due consideration to the social and ecological impact of our business. Further details on our CSR activities are set out on pages 30 to 31.

GOING CONCERN

The Directors have formed a judgement at the time of approving the financial statements that there is a reasonable expectation that ZEAL has adequate resources to continue for the foreseeable future. The Group holds €95.0m in cash (2015: €94.8m) and short-term financial assets of €19.7m (2015: €12.9m) at the year-end. The Group expects to deliver revenue and profit growth in the period ahead. For these reasons, the Directors have adopted the going concern basis in preparing the financial statements.

CORPORATE GOVERNANCE

The Company's Corporate Governance Report is set out on pages 36 to 37 of this report.

PRINCIPAL RISKS AND UNCERTAINTIES

The Company is exposed to a number of risks and uncertainties that could affect the performance of the Company and its prospects. The Executive Board and specifically the Supervisory Board's Audit Committee are responsible for the Company's process of internal control and risk management and for reviewing its continuing effectiveness. They ensure, to the greatest extent possible, that the system of internal procedures and controls is appropriate to the nature and scale of the Company's activities and that appropriate processes and controls are in place to effectively manage and mitigate strategic, operational, financial and other risks facing the Company. A detailed list of risks and their management are set out on pages 25 to 29 of this report.

TAKEOVERS DIRECTIVE

As at 31 December 2016, the Company's issued share capital comprised a single class of share referred to as ordinary shares. Details of the share capital can be found in note 22 to the consolidated financial statements. On a show of hands at a General Meeting of the Company, every holder of shares present in person and entitled to vote shall have one vote, and on a poll every member present in person or by proxy and entitled to vote shall have one vote for every ordinary share held. The notice of the General Meeting specifies deadlines for exercising voting rights either by proxy notice or by presence in person or by proxy in relation to resolutions to be passed at a General Meeting. All proxy votes are counted and the numbers for, against or withheld in relation to each resolution are announced at the AGM and published on the Company's website after the meeting. There are no securities carrying special rights, nor are there any restrictions on voting rights attached to the ordinary shares. There are no restrictions on the transfer of shares in the Company other than:

- Certain restrictions may be imposed from time to time by laws and regulations (for example, insider trading laws), and
- Employees of the Company are not allowed to trade in shares or exercise options in certain quiet periods (such close periods normally start from the end of each quarter to the beginning of the second day of trading following publication of the results for the respective reporting quarter/year).

Details of changes in share capital can be found in note 22 to the consolidated financial statements. The Company did not purchase its own shares during 2016. Furthermore, the Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities and for voting rights. In the case of a change in control of the Company, no Executive Board members have a change of control clause.

There are no agreements between the Company and its Directors or employees providing for compensation for loss of office or employment (whether through resignation, purported redundancy or otherwise) that occur because of a takeover bid. The agreement between the Company and its Directors for compensation for loss of office are given in the Directors' Remuneration Report on pages 40 to 54 of this report. The Statutes may only be amended by a special resolution at a General Meeting of shareholders.

ANNUAL GENERAL MEETING

The notice convening the AGM will be published separately and posted on the Company's website. The meeting is planned to be held in London on 30 June 2017 at 9.00 am.

AUDITOR

In accordance with Section 384 of the Companies Act 2006, a resolution for the reappointment of Ernst & Young LLP as auditor of the Company is to be proposed at the forthcoming AGM.

AUDITOR AND DISCLOSURE OF INFORMATION TO THE AUDITOR

Each of the Directors in office as of the date of approval of this report confirms that, so far as he or she is aware, there is no relevant audit information (being information needed by the auditor in connection with preparing its report) of which the auditor is unaware and that he or she has taken all the steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the auditor is aware of that information.

The Annual Report was approved by the Executive Board and Supervisory Board and authorised for issue on 23 March 2017 and signed on behalf of the Executive Board and the Supervisory Board:

By order of the Executive Board and the Supervisory Board

Dr. Helmut Becker
Chief Executive Officer
23 March 2017
ZEAL Network SE
5th Floor – One New Change, London EC4M 9AF, United Kingdom
Registered number SE000078

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 the applicable law and regulations. Company law requires the Directors to prepare Group and parent company financial statements for each financial year. Under that law the Directors have prepared the Group and parent company financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). 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 the parent company and of the profit or loss of the Group for that period.

In preparing the Group and parent company financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently,
- Make judgements and estimates that are reasonable and prudent,
- State whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business; and
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and parent company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and parent company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group and parent company financial statements. They are also responsible for safeguarding the assets of the Group and parent company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Having taken advice from the Audit Committee, the Directors consider that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the performance, business model and strategy of the Group and the parent company.

DIRECTORS' STATEMENT PURSUANT TO THE DISCLOSURE AND TRANSPARENCY RULES

The Directors confirm, to the best of their knowledge and belief, that:

- The financial statements, prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group and Company; and
- The Annual Report includes a fair review of the development and performance of the business and the position of the Company and the Group, together with a description of the principal risks and uncertainties associated with the expected development of the Company and the Group.

The Directors are responsible for the maintenance and integrity of the Group's website zeal-network.co.uk. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the Executive Board and the Supervisory Board

Dr. Helmut Becker
Chief Executive Officer
23 March 2017

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ZEAL NETWORK SE

We have audited the financial statements of ZEAL Network SE for the year ended 31 December 2016 which comprise the Consolidated and Company statements of financial position, the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated and Company statements of cash flows and the Consolidated and Company statements of changes in equity, the related notes to Consolidated financial statements, 1 to 31 and the related notes to the Company financial statements, A to K. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As explained more fully in the Statement of Directors' Responsibilities set out on page 59, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual Report and Accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

OPINION ON FINANCIAL STATEMENTS

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 2016 and of the Group's profit for the year then ended;
- The Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;

- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union 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.

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion:

- The part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006;
- Based on the work undertaken in the course of the audit:
  - the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements;
  - the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements;
- Based on the work undertaken in the course of the audit, the information given in the Corporate Governance statement set out on pages 36 and 37 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or Directors' Report.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us 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 and the part of the Directors' remuneration report to be audited 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; or
- A Corporate Governance statement has not been prepared by the Company.

Cameron Cartmell
(Senior Statutory Auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor
London
23 March 2017

Notes:

1. The maintenance and integrity of the ZEAL Network SE website is the responsibility of the Directors; the work carried out by the auditor does not involve consideration of these matters and, accordingly, the auditor accepts no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

CONSOLIDATED INCOME STATEMENT
FOR THE PERIOD 1 JANUARY TO 31 DECEMBER 2016

in €k	Note	2016	2015
Revenue	3	112,935	88,962
Other operating income	4	26,703	52,024
Total Operating Performance (TOP)		**139,638**	**140,986**
Personnel expenses	24	(26,705)	(25,434)
Amortisation/depreciation on intangible assets and property, plant and equipment		(2,166)	(7,153)
Exchange rate differences		(1,304)	1,433
Other operating expenses	5	(70,405)	(66,878)
Marketing expenses		(14,830)	(9,958)
Direct costs of operations		(33,909)	(31,362)
Other costs of operations		(21,666)	(25,558)
Gain/(Loss) on liquidation of subsidiary		238	(95)
Loss on acquisition	6	(1,340)	–
Result from operating activities (EBIT)		**37,956**	**42,859**
Finance income	7	390	258
Finance costs	7	(237)	(1,120)
Impairment of convertible loan	6	(1,598)	–
Share of loss of associated companies		–	(14,965)
Share of loss of joint ventures		–	(7,428)
Results from financing and investing activities		**(1,445)**	**(23,255)**
Profit before income tax		**36,511**	**19,604**
Income tax expense	8	(10,560)	(18,258)
Profit attributable to the equity shareholders of the Company		**25,951**	**1,346**
Earnings per share for profit attributable to ordinary equity holders of the Company		€	€
Basic and diluted earnings per share (in €/share)	22	3.09	0.16

The above consolidated income statement should be read in conjunction with the accompanying notes 1 to 31.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD 1 JANUARY TO 31 DECEMBER 2016

	2016	2015
in €k		
Profit for the year	**25,951**	**1,346**
Other comprehensive income		
Items that may be reclassified to profit or loss		
Changes in the fair value of available-for-sale financial assets	(227)	48
Income tax relating to these items	–	–
Exchange differences on translation of foreign operations	143	–
Other comprehensive (loss)/income for the year, net of tax	**(84)**	**48**
Total comprehensive income attributable to the equity shareholders of the Company	**25,867**	**1,394**

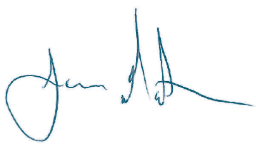
The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes 1 to 31.

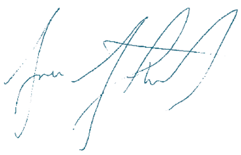
CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

		2016	2015
ASSETS in €k	Note		
Non-current assets			
Property, plant and equipment	9	1,901	2,224
Intangible assets	10	802	1,945
Deferred tax assets	11	575	781
Investments in associated companies	12	–	–
Investments in joint ventures	13	–	–
Long-term loans	14	–	3,075
Other investments	15	1,198	–
Other assets and prepaid expenses		201	173
Total non-current assets		**4,677**	**8,198**
Current assets			
Trade and other receivables	16	755	10,005
Income tax receivables		9	2,269
Other current assets and prepaid expenses	17	12,835	12,222
Short-term loan	14	3,075	–
Financial assets	18	19,682	12,883
Cash and pledged cash	18	94,983	94,777
Total current assets		**131,339**	**132,156**
TOTAL ASSETS		**136,016**	**140,354**

EQUITY & LIABILITIES in €k	Note	**2016**	2015
Non-current liabilities			
Other liabilities	19	2,199	1,474
Total non-current liabilities		**2,199**	**1,474**
Current liabilities			
Trade payables		5,052	5,013
Other liabilities	19	22,545	22,978
Financial liabilities		123	113
Deferred income	21	2,251	3,977
Income tax liabilities		5,952	10,576
Provisions	20	336	1,054
Total current liabilities		**36,259**	**43,711**
Equity			
Subscribed capital	22	8,385	8,385
Share premium	22	21,578	21,578
Other reserves	22	(785)	(558)
Foreign currency translation reserve	22	143	–
Retained earnings	22	68,237	65,764
Total equity		**97,558**	**95,169**
TOTAL EQUITY & LIABILITIES		**136,016**	**140,354**

The above consolidated balance sheet should be read in conjunction with the accompanying notes 1 to 31. These financial statements were approved by the Board of Directors on 23 March 2017 and were signed on its behalf by:





Dr. Helmut Becker
Member of Executive Board

Jonas Mattsson
Member of Executive Board

Susan Standiford
Member of Executive Board

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD 1 JANUARY TO 31 DECEMBER 2016

	2016	2015
in €k		
Profit from continuing operations before tax	36,511	19,604
Adjustments for		
Depreciation and amortisation of non-current assets	2,166	7,153
Net loss on sale of non-current assets	–	137
Finance income	(390)	(258)
Finance costs	237	1,120
Impairment of convertible loan	1,598	–
Share of result of associated companies	–	14,965
Share of result of joint ventures	–	7,428
(Profit)/loss on liquidation of subsidiary	(238)	95
Loss on acquisition of Geo24 & GGGL	1,340	–
Acquisition of GGGL and Geo24, net of cash acquired	(623)	–
Other non-cash changes	234	262
Changes in		
Trade and other receivables	9,487	(8,195)
Other assets and prepaid expenses	(641)	(1,738)
Trade payables	39	(2,492)
Other liabilities	(980)	2,364
Financial liabilities	10	4
Deferred income	(1,726)	1,082
Provisions	(718)	360
Interest received	390	258
Interest paid	(237)	(1,120)
Income taxes paid	(12,718)	(13,744)
Cash flow from operating activities	**33,741**	**27,285**

	2016	2015
in €k		
Cash flow from investing activities		
Loan to associated companies	(1,598)	–
Acquisition of intangible assets	(240)	(331)
Acquisition of property, plant and equipment	(460)	(650)
Payments for acquisition of investment	(1,198)	–
Receipt/(Payment) on liquidation of subsidiary	238	(231)
Long-term loans	–	(3,075)
Net cash outflow from investing activities	**(3,258)**	**(4,287)**
Cash flow from financing activities		
Dividends paid to the Company's shareholders	(23,478)	(23,478)
Net cash outflow from financing activities	**(23,478)**	**(23,478)**
Net increase/(decrease) in cash, pledged cash and short-term financial assets	7,005	(480)
Cash, pledged cash and short-term financial assets at the beginning of the year	107,660	108,140
Cash and cash equivalents at the end of the financial year	**114,665**	**107,660**
Composition of cash and cash equivalents		
Cash and pledged cash	94,983	94,777
Short-term financial assets	19,682	12,883
Cash and cash equivalents at the end of the financial year	**114,665**	**107,660**

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes 1 to 31.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD 1 JANUARY TO 31 DECEMBER

	Subscribed capital	Share premium	Other reserves	Retained earnings	Currency translation adjustments	**Total equity**
in €k						
Balance at 1 January 2015	**8,385**	**21,578**	**(606)**	**87,896**	**–**	**117,253**
Profit for the year	–	–	–	1,346	–	1,346
Other comprehensive income	–	–	48	–	–	48
Total comprehensive income for the year	**–**	**–**	**48**	**1,346**	**–**	**1,394**
Transactions with owners in their capacity as owners						
Dividends paid	–	–	–	(23,478)	–	(23,478)
As at 31 December 2015	**8,385**	**21,578**	**(558)**	**65,764**	**–**	**95,169**
As at 1 January 2016	**8,385**	**21,578**	**(558)**	**65,764**	**–**	**95,169**
Profit for the year	–	–	–	25,951	–	25,951
Other comprehensive income	–	–	(227)	–	143	(84)
Total comprehensive income for the year	**–**	**–**	**(227)**	**25,951**	**143**	**25,867**
Transactions with owners in their capacity as owners						
Dividends paid	–	–	–	(23,478)	–	(23,478)
As at 31 December 2016	**8,385**	**21,578**	**(785)**	**68,237**	**143**	**97,558**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes 1 to 31.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

ZEAL Network SE ('the Company' or 'ZEAL Network') was founded in Germany in 1999. It subsequently transferred its registration to the UK in February 2014 under the Company Number SE000078. The Company's shares are listed in the Prime Standard segment of the Frankfurt Stock Exchange and are included in the SDAX index in the form of Clearstream Interests (CI) under the ISIN GB00BHD66J44/WKN TPP024.

The consolidated financial statements of ZEAL Network SE (collectively 'ZEAL Group' or 'the Group') for the year ended 31 December 2016 were authorised for issue in accordance with a resolution of the Executive Board and subsequently forwarded to the Supervisory Board for examination and adoption on 23 March 2017.

The date of the statement of financial position is 31 December 2016. The financial year ended 31 December 2016 covers the period from 1 January 2016 to 31 December 2016.

2 ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of ZEAL Group's consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 BASIS OF PREPARATION

The consolidated financial statements of ZEAL Group have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU), and the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention, except for the revaluation to fair value of the available for sale financial assets as described in the accounting policies below.

The financial statements are prepared on a going concern basis. The Directors have formed a judgement at the time of approving the financial statements that there is a reasonable expectation that ZEAL Group has adequate resources to continue in operation for the foreseeable future. This assessment is based on the fact that the Group holds approximately €95.0m in cash and approximately €19.7m in short-term financial assets at the year-end (2015: €94.8m and €12.9m in cash and short-term deposits, respectively). As the Group expects to deliver revenue, positive cash inflows and profit growth in the years ahead, the Directors have adopted the going concern basis in preparing the consolidated financial statements.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Actual results could differ from those estimates.

Under licence conditions and codes of practice published by the UK Gambling Commission in February 2015 (subsequently updated in April 2015), the financial statements must disclose the quantum of balances held in customer accounts representing funds not owned by the ZEAL Group. This information is included in note 18 to the consolidated financial statements.

Unless otherwise stated monetary amounts are denominated in Euros rounded to the nearest thousand.

2.2 RECENT ACCOUNTING DEVELOPMENTS

New standards, amendments and interpretations of existing standards adopted by the Group

There were no new accounting standards issued during 2016, only amendments to existing standards. The following standards, interpretations and amendments have been adopted by the Group for the first time as of 1 January 2016 but have had no material impact on the consolidated results of operations of financial position of the Group:

- Amendments to IFRS 10, 'Consolidated financial statements', IFRS 12, 'Disclosure of interests in other entities' and IAS 28, 'Investments in associates and joint ventures' on investment entities applying the consolidation exemption.
- Amendment to IFRS 11, 'Joint arrangements', on acquisition of an interest in a joint operation.
- Amendment to IAS 1, 'Presentation of financial statements' on the disclosure initiative.
- Amendments to IAS 27, 'Separate financial statements' on the equity method in separate financial statements.
- Amendments to IAS 16, 'Property, plant and equipment', and IAS 38, 'Intangible assets' on clarification of acceptable methods of depreciation and amortisation.
- Annual improvement processes (AIP) to IFRS 5, 'Non-current assets held for sale and discontinued operations' – changes in the method of disposal; IFRS 7, 'Financial instruments – disclosures' regarding servicing contracts and the applicability of the offsetting disclosures in condensed interim financial statements, IAS 19, 'Employee benefits' regarding the discount rates in regional markets and IAS 34, 'Interim financial reporting' regarding the disclosure of information elsewhere in the interim financial report.

New standards, amendments and interpretations of existing standards that are not yet effective and have not been early adopted by the Group

The following standards and revisions listed below will be effective for future accounting periods beginning on or after 1 January 2017:

- IAS 7, 'Disclosure initiative' is effective from 1 January 2017.
- IAS 12, 'Recognition of deferred tax assets for unrealised losses' is effective from 1 January 2017.
- IFRS 2, 'Classification and measurement of share-based payment transactions' is effective from 1 January 2018.
- Amendments to IFRS 4, 'Insurance contracts' through application of IFRS 9 'Financial instruments' is effective from 1 January 2018.
- IAS 40, 'Transfers of Investment Property' is effective from 1 January 2018.
- IFRIC 22, 'Foreign Currency Transactions and Advance Consideration' is effective from 1 January 2018.
- Annual improvement processes (AIP) 2014–2016 to IFRS, 1 'First-time Adoption of International Financial Reporting Standards' – Deletion of short-term exemptions for first-time adopters' is effective from 1 January 2018.
- AIP IAS 28, 'Investments in Associates and Joint Ventures' – Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice is effective from 1 January 2018.
- AIP IFRS 12, 'Disclosure of Interests in Other Entities' is effective from 1 January 2017.

The Directors have considered the impact of the following standards in further detail, due to the potential impact these changes could have on the Group.

- IFRS 15, 'Revenue from contracts with customers'

  Nature of change

  IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Income from financial instruments will continue to be recognised under IAS 39 or IFRS 9.

  Preliminary Assessment

  The Group plans to adopt the new standard on the required effective date using the full retrospective method. During 2016, the Directors performed a preliminary assessment of the impact that the adoption of IFRS 15 will have on the Group's consolidated financial statements. As a result of clarifications issued by the IASB in April 2016, it is anticipated that the preliminary assessment will require minor revision in advance of full adoption. The Group will continue to monitor any further developments in this area.

  The Group specialises in the area of secondary lottery betting. The Group has assessed that IFRS 15 is unlikely to have a material impact on the way in which the Group recognises revenue. All material revenue streams are accounted for under IAS 39 rather than IFRS 15.

  IFRS 15 provides presentation and disclosure requirements, which are more detailed than under current IFRS. The presentation requirements represent a change from current practice and increase the volume of disclosures required in

Group's financial statements. Based on our assessment of the requirements outlined in IFRS 15, we do not anticipate any significant changes in the level of disclosure following adoption of this standard.

- IFRS 9, 'Financial Instruments'

  Nature of change
  In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for the financial instruments project: classification and measurement, impairment and hedge accounting.

  IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

  Preliminary Assessment
  The Group plans to adopt the new standard on the required effective date. During 2016, the Group performed a high-level impact assessment of all three aspects of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analysis.

  The new standard is broadly split into three areas:

  1. Classification and measurement

  The Group does not expect a significant impact on its balance sheet or equity balances on application of the classification and measurement principles of IFRS 9. It expects to continue to measure at fair value all financial assets currently held at fair value. Gains and losses recorded on movements in the fair value of Other Investments are currently recorded through other comprehensive income. On adoption of IFRS 9, all period end fair value re-measurements will be recorded through the income statement. The change in accounting treatment will increase volatility in the recorded profit or loss. The AFS reserve currently presented as accumulated OCI will be recycled through the opening retained earnings position. There is also a fair value through other comprehensive income election available for equity instruments, which are currently classified as available for sale.

  There will be no impact on the Group's accounting for financial liabilities as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss. The Group does not have (or does not expect to have) any such liabilities.

  2. Expected credit losses (ECL)

  IFRS 9 requires the Group to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Group expects to apply the simplified approach and record lifetime expected losses on all trade receivables.

  3. Hedge accounting

  Presently, the Group does not hold any instruments which have been designated for hedge accounting. Accordingly, the Group does not expect a significant impact.

  The new standard also introduces expanded disclosure requirements and changes in presentation. These changes are expected to alter the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

- IFRS 16, 'Leases'

  Nature of change
  IFRS 16 was issued in February 2016. It will result in almost all leases being recognised on the Statement of Financial Position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change.

  IFRS 16 is effective for annual periods beginning on or after 1 January 2019, with early application permitted. The Group plans to adopt the new standard on the required effective date using the full retrospective method.

  Preliminary Assessment
  The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of €14.6m (2015: €12.3m), disclosed in note 27 to the consolidated financial statements. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows. Some of the commitments may be covered by the exception for short-term and low value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16.

  There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

2.3 SIGNIFICANT JUDGEMENTS AND ESTIMATES

In determining and applying accounting policies, judgement is often required where the choice of specific policy, assumption or accounting estimate to be followed could materially affect the reported results or net position of the Group, should it later be determined that a different choice be more appropriate.

Management considers the following to be areas of significant judgement and estimation for the Group due to greater complexity and/or particularly subject to the exercise of judgement.

Basis of consolidation
The relative complexity of the Group structure means that judgement is required in correctly applying the provisions of IFRS 10, 'Consolidated financial statements', to ensure that all companies over which ZEAL Network SE has control are included and presented appropriately in the consolidated financial statements. The nature of these relationships including the power that the Company exercises over its subsidiary companies together with the Company's exposure or rights to variable returns of those companies is reviewed at least at each reporting period date to ensure that the companies included in the consolidation are appropriate (and are de-recognised where required). The basis of consolidation is described in detail in section 2.4 below.

Impairment considerations for available-for-sale investments
Impairment reviews in respect of the Company's available-for-sale investments are performed at least annually or more regularly if events indicate that this is necessary. Impairment reviews are based on future cash flows discounted using the weighted average cost of capital with terminal values calculated applying a long-term growth rate. The future cash flows, which are based on business forecasts, the long-term growth rates and the discount rates used are dependent on management estimates and judgements. Future events could cause the assumptions used in these impairment reviews to change with a consequent adverse impact on the results and net position of the Group.

The Company performs impairment reviews on its available-for-sale assets on 31 December each year. There is no objective evidence that a financial asset or group of financial assets is impaired. No impairment charges were therefore recorded in the consolidated income statement for the year ended 31 December 2016.

Taxation and other duties
Due to periodic changes in the tax landscape of the industry in which the Group operates, judgement is required in determining the provision for taxes and other duties. The treatment of these items is often by its nature complex and cannot be finally determined until a formal resolution has been reached with the relevant tax authority, which may take several years. Amounts provided are accrued based on advice from legal professionals, management's interpretation of specific tax laws and the likelihood of settlement. Actual liabilities could differ from the amount provided, which could have an impact on the results and net position of the Group.

The majority of tax positions taken by the Group are routine and not subjective. However, judgement has been exercised by the Directors in certain specific tax related areas. These matters have been disclosed if appropriate in the notes to the consolidated financial statements in accordance with the governing financial reporting standards and include the following areas:

Value added tax ('VAT')
Due to the changes in EU VAT legislation introduced on 1 January 2015, there is significant uncertainty around whether certain services provided by the MyLotto24 sub group are subject to VAT and the tax base on which any VAT payable would be calculated. At this stage, the Directors of the Group consider that the likelihood of the outflow of economic benefits is not probable and, as such, no provision has been recorded in the consolidated financial statements. Based on a thorough legal assessment, which included a review of the existing legal framework of relevant Member States and existing case law, The Directors remain confident that the outcome will be favourable for the Group. The Group will continue to closely monitor any changes in this area and ensure that the accounting for VAT continues to comply with governing legislation. The Directors have reported a contingent liability on this matter and a separate disclosure is included in note 27 to the consolidated financial statements. In accordance with IAS 37 'Provisions, contingent assets and contingent liabilities', the Directors have estimated the potential financial impact (if any) and the associated timings in note 27 to the consolidated financial statements.

Tax audits
As noted in the 2015 Annual Report, there was a dispute regarding the validity of the tax treatment of two items included in returns filed during inspection period (business years 2005 to 2007 inclusive). Whilst one of the items was settled in the Group's favour, the second item remained open at 31 December 2015. After the filing for a stay of execution was denied by the Fiscal Court of Hamburg, an amount of €3.6m was paid during 2015

(€2.3m tax charge and €1.3m interest and penalties). During 2016, the Directors discontinued the appeal against the tax authority's assessment and settled the remaining interest for €0.2m. The case is now fully closed and no further cash outflows are anticipated.

During 2016, a separate case brought by the same tax authority in respect of business years 2008 to 2011 was settled for €2.3m. The best estimate of the expected outflow of economic benefits at 31 December 2015 resulted in the recording of a provision of €3.0 m in the 2015 financial statements. The overprovision of €0.7m was released to the consolidated income statement through the tax line in Q4 2016 when the Directors were satisfied that no future obligation from the tax case was anticipated. The Directors consider this case closed as there have been no further communications from the tax authorities. No related cash outflows or provisions are anticipated and there is no contingent liability.

2.4 BASIS OF CONSOLIDATION

The consolidated financial statements include the financial information of the subsidiary, associate and joint venture interests owned by the Company:

(I) Subsidiaries
Initial consolidation of subsidiary companies

Subsidiaries are entities controlled by the Company. Control is where the Company has power to vary the returns from its investment, and exposure to the variability of those returns. Subsidiaries are included in the consolidated financial statements from the date control commences until the date control ceases.

The equity interests of all subsidiary companies included in the consolidated financial statements are 100% owned by ZEAL Network with the exception of the Company's interests in MyLotto24 Limited and its subsidiary and associated companies (full details are set out within the Subsidiaries, Associates and Joint Ventures section (note 23) to the consolidated financial statements).

ZEAL Network holds 40% of the voting shares in MyLotto24 Limited. MyLotto24 Limited is the parent of the MyLotto24 sub group in which it itself holds the majority of the voting shares except for Tipp24 Services Limited in which it holds 40% of the voting shares. Fondation enfance sans frontières holds the remaining 60% of Tipp24 Services Limited, on the same basis as MyLotto24 Limited.

On 30 April 2009, ZEAL Network sold 60% of the voting shares in both MyLotto24 Limited and Tipp24 Services Limited to a Swiss foundation set up by ZEAL Network in the form of preference shares stripped of their main economic rights. As a consequence, ZEAL Network owns no more than half the voting rights in MyLotto24 Limited, while MyLotto24 Limited owns no more than half the voting rights in Tipp24 Services Limited. The affiliate companies and their respective subsidiaries are consolidated in the ZEAL Network SE Group financial statements because the relevant criteria of IFRS 10 are met:

- ZEAL Network has a right to repurchase the majority of voting rights for an amount of £30k for each company. ZEAL Network has veto rights with regard to changes in the articles of MyLotto24 and Tipp24 Services.
- The owner of the majority of voting rights receives a preliminary annual dividend of up to £15k for each company. In the case of liquidation, the owner of the majority of voting rights is entitled to receive previously agreed liquidation proceeds of £30k. ZEAL Network alone is entitled to the entire remaining profits and any remaining liquidation proceeds.

The annual dividend is therefore treated as an expense in the consolidated financial statements of ZEAL Group and the results of all entities within the MyLotto24 sub group are fully consolidated into the ZEAL Group consolidated financial statements. As a result of the substance of the relationship, no non-controlling interest is recorded.

Subsequent disposal of subsidiary companies

On the subsequent disposal or termination of a business, the results of the business are included in the Group's results up to the effective date of disposal. The profit or loss on disposal or termination is calculated after charging the amount of any related goodwill to the extent that it has not previously been taken to the income statement. Dividends received on liquidation of subsidiaries, representing the residual value attributable to the owner, are recorded in the period in which the liquidation is finalised.

Transactions, balances and vehicles not included in the consolidated results

Intra-group balances, and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred.

The Group manages its risk exposure to large jackpots through the use of an insurance-linked-security (ILS) vehicle set up specifically to provide insurance cover to the MyLotto24 sub group. The ILS vehicle is not consolidated as the relevant criteria around control under IFRS 10 are not met.

(II) Associates and joint ventures
Associates are entities in which the Group has a long-term interest and over which the Group has, directly or indirectly, significant influence, where significant influence is the ability to influence the financial and operating policies of the entity. Joint ventures are a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. A joint venture is a joint arrangement whereby the parties have rights to the net assets of the arrangement.

The Group's share of the recognised income and expenses of associates and joint ventures are accounted for using the equity method, from the date significant influence or joint control commences to the date it ceases, based on present ownership interests. The Group recognises its share of the associate's and joint venture's post-tax results as a one line entry before profit before taxation in the income statement and, to the extent relevant, its share of associate's and joint venture's equity movements as one line entries under each of items of other comprehensive income that will not be reclassified to profit or loss, and items of other comprehensive income that may be reclassified to profit or loss, in the statement of comprehensive income (no such entries in the current or prior year).

Unrealised gains and losses resulting from transactions between ZEAL Group and its associated company or joint venture are eliminated to the extent of ZEAL Group's interest in the associated company or joint venture.

When the Group's interest in an associate or joint venture has been reduced to nil because the Group's share of losses exceeds its interest in the associate or joint venture, the Group only provides for additional losses to the extent that it has incurred legal or constructive obligations to fund such losses, or make payments on behalf of the associate or joint venture. Where the investment in an associate or joint venture is disposed, the investment ceases to be equity accounted.

Previously, the Group accounted for its relationships with Geonomics Global Games Limited (GGGL) and Geo24 UK Limited (Geo24) as an investment in an associate and an investment in a joint venture respectively. On 30 March 2016, the Group acquired the remaining issued shares of GGGL leading to full ownership of both GGGL and Geo24. As such, these companies are now accounted for as wholly owned subsidiaries. Further information in respect of the acquisition of these companies is included in note 6 to the consolidated financial statements.

2.5 CLASSIFICATION OF CURRENT AND NON-CURRENT ASSETS AND LIABILITIES

ZEAL Group presents assets and liabilities in the statement of financial position based on the Company's assessment of whether they meet the classification as current or non-current balances.

An asset is a current asset when:

- The asset is expected to be realised or intended to be sold or consumed in the normal operating cycle;
- The asset is held primarily for the purpose of trading;
- The asset is expected to be realised within twelve months after the reporting period; or
- The asset is cash or a cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period date.

All other assets are classified as non-current.

A liability is current when:

- The liability is expected to be settled in the normal operating cycle;
- The liability is held primarily for the purpose of trading;
- The liability is due to be settled within twelve months after the reporting period; or
- The Company has no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period date.

All other liabilities are classified as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities in accordance with IAS 1 'Presentation of inancial statements'.

2.6 REVENUE

Revenue represents the fair value of consideration received or receivable for goods and services provided to third parties and is recognised when the risks and rewards of ownership are substantially transferred. Revenue is disclosed net of VAT, free bets, winnings pay-outs, discounts, customer bonuses and rebates.

(I) Secondary lottery revenue
Revenue that MyLotto24 Limited generates as the organiser of secondary lotteries, where MyLotto24 Limited bears the bookmaking risk, is recognised at the moment the draw results of the respective lotteries are announced. Stakes received as of the balance sheet date, but which are intended for games whose draw results are not available until after the balance sheet date, are deferred.

A contract to participate in a secondary lottery is treated as a derivative. The definition of a derivative is applied to contracts:

- Where payments are linked to the outcome of an event;
- Where the value of the contract, compared to the potential pay-out, is relatively low;
- Where contracts are in place before the event has occurred and, in the case of a win, the pay-out is made in the future after the event has occurred.

Profits or losses from a change in the fair value of derivatives are recognised in the income statement. Stakes and pay-outs are therefore not regarded as separate income and expenditure, but are aggregated to determine the total fair value.

A possible term for such items in the income statement could be 'Changes in the fair value of contracts for participation in secondary lotteries'. Throughout the sector, however, this item is generally termed 'Revenue', as it refers to the ordinary activity of a company in the gaming industry.

In line with industry practice gaming duties are recorded as 'Other operating expenses' and not as sales tax within revenue.

(II) Revenue generated from Instant Win Games

Revenue that MyLotto24 Limited generates from the sale of Instant Win Game products is recognised in the same way as revenue generated on secondary lottery activities. Revenue on Instant Win Games is recorded at the point which the game is purchased. The quantum of revenue recorded represents the amount of bets placed by the customers less amounts won.

(III) Revenue generated from commissions and fees

Revenue also results from commissions and fees, which ZEAL receives for placing bets on behalf of customers. Revenue is recognised when the bets have been made, the lottery ticket information passed on to the lottery organiser and confirmation of receipt of the information has been received. Ventura24 S.L. receives advance payments from some of its customers for subscriptions. Payments received are deferred and the related revenue is only recognised when the lottery ticket information has been passed on to the lottery organiser and confirmation of receipt of the information has been obtained (pursuant to IAS 18 'Revenue').

(IV) Other revenue

ZEAL receives revenue from servicing lottery operators. Insofar as this revenue is related to end consumer bets, it is recognised when the bets are made.

2.7 OTHER INCOME

(I) Interest income

Interest income is recognised on an accruals basis using the effective interest rate method.

(II) Other operating income

Other operating income comprises the following:

- The fair value of consideration received or receivable from winning tickets purchased by MyLotto24 Limited on Spanish Euromillones draws.
- The fair value of consideration received or receivable from special insurance policies taken out to hedge against the risk of special draw pay-outs.
- The fair value of consideration received or receivable from the use of an insurance-linked-security (ILS) vehicle taken out to provide cover against the risk of large pay-outs.
- The release of dormant customer balances to the consolidated income statement. Funds deposited by the Group's customers are classified as other liabilities in the financial statements. After a period of 24 months from the date of last activity on customer accounts, the related customer liabilities are classified as dormant. If attempts to contact the customer to refund deposits held on their behalf are unsuccessful (at least 26 months from last activity), these customer liabilities are released to other operating income. This is consistent with the terms and conditions included on the Group's websites.

2.8 INCOME TAXES

(I) Current and deferred taxes

The tax expense 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 in other comprehensive income or directly in equity, in which case it is recognised in other comprehensive income or directly in equity, respectively.

Current tax expense is based on the results for the year as adjusted for items that are not taxable or not deductible. The Group's liability for current taxation is calculated using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided in full in respect of all temporary differences arising between the tax bases of assets and liabilities and their carrying values in the consolidated financial statements, except where the temporary difference arises from goodwill (in the case of deferred tax liabilities) or from the initial recognition (other than a business combination) of other assets and liabilities in a transaction that affects neither accounting nor taxable profit.

Deferred tax liabilities are recognised where the carrying value of an asset is greater than its tax base, or where the carrying value of a liability is less than its tax base. Deferred tax is recognised in full on temporary differences arising from investment in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. This includes taxation in respect of the retained earnings of overseas subsidiaries only to the extent that, at the balance sheet date, dividends have been accrued as receivable or a binding agreement to distribute past earnings in future periods has been entered into by the subsidiary.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it is expected that sufficient existing taxable temporary differences will reverse in the future or there will be sufficient taxable profit available against which the temporary differences (including carried forward tax losses) can be utilised. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is measured, on an undiscounted basis, at the tax rates expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted at balance sheet date.

(II) Withholding and similar taxes

Withholding taxes suffered relate specifically to amounts withheld from gross pay-outs on winning tickets purchased from the Spanish National Lottery (SELAE) by MyLotto24 Limited. As a result of lottery tax legislation brought in by the Spanish Government in 2013, SELAE is required to withhold 20% of gross winnings and transfer this directly to the Spanish Tax Authorities on behalf of the winner. Until 30 September 2015, taxes on winnings were treated as deductions from other operating income. A receivable for taxes withheld at source will be recorded only when there is persuasive evidence to confirm that a refund will be received.

2.9 OPERATING EXPENSES

Operating expenses are recognised when goods and services have been provided to the Group. Any goods or services that have been provided during the period where no invoice has been received from the supplier are accrued for.

2.10 FOREIGN EXCHANGE

(I) Foreign exchange translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Euros, which is the Group's presentational currency. The average exchange rates (calculated based on the average of the exchange rates during the financial year) and the closing exchange rates have been taken from the publicly available European Central Bank rates. All exchange rate difference, which are in a currency different from the Group's presentational currency are recognised in other comprehensive income.

(II) Transactions and balances

The financial statements for each Group company have been prepared on the basis that transactions in foreign currencies are recorded in their functional currency at the rate of exchange ruling at the date of the transaction. Monetary items denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date with the resultant translation differences being included in operating profit in the income statement other than those arising on financial assets and liabilities, which are recorded within financial income or expense. Translation differences on non-monetary assets such as equity investments classified as available for sale assets are included in other comprehensive income.

2.11 INTANGIBLE ASSETS

Intangible assets are stated at cost less accumulated amortisation on a straight-line basis (if applicable) and impairment losses. Cost is usually determined as the amount paid by the Group, unless the asset has been acquired as part of a business combination. Intangible assets acquired as part of a business combination are recognised at their fair value at the date of acquisition. Amortisation is included within depreciation and amortisation separately identified in the income statement. Internally generated intangibles are not recognised except for computer software and development costs referred to under computer software and research and development below.

Intangible assets with finite lives are amortised over their estimated useful economic lives, and only tested for impairment where there is a triggering event. The Group regularly reviews all of its amortisation rates and residual values to take account of any changes in circumstances.

The Directors' assessment of the useful life of intangible assets is based on the nature of the asset acquired, the durability of the products to which the asset attaches and the expected future impact of competition on the business.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset. They are recognised in profit or loss when the asset is derecognised.

(I) Computer software and licences

Where computer software is not an integral part of a related item of property, plant and equipment, the software is capitalised as an intangible asset.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring them to use. Direct costs associated with the production of identifiable and unique internally generated software controlled by the Group that will probably generate economic benefits exceeding costs beyond one year are capitalised. Direct costs include software development employment costs (including those of contractors used) and an appropriate portion of overheads. Capitalised computer software, licence and development costs are amortised over their useful economic lives of between three and five years.

Internally generated costs associated with maintaining computer software programmes are expensed as incurred.

(II) Research and development

Research and general development expenditure is written off in the period in which it is incurred.

Certain development costs are capitalised as internally generated intangible assets in the following circumstances:

- Where there is a clearly defined project;
- Where there is separately identifiable expenditure;
- Where an outcome can be assessed with reasonable certainty (in terms of feasibility and commerciality);
- When expected revenues exceed expected costs and the Group has the resources to complete the task.

Such assets are amortised on a straight-line basis over their useful lives once the project is complete.

2.12 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost net of accumulated depreciation and any impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the assets. Subsequent costs are included in the asset's carrying value or recognised as a separate asset as appropriate, only when it is probable that future economic benefits associated with the specific asset will flow to the Group and the cost can be measured reliably.

Repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the residual amount of the asset and is recognised in profit or loss.

(I) Assets in the course of construction

Assets in the course of construction are carried at cost less any impairment loss. Cost includes professional fees and for qualifying assets certain borrowing costs as determined below. When these assets are ready for their intended use, they are transferred into the appropriate category. At this point, depreciation commences on the same basis as on other property, plant and equipment.

(II) Depreciation

Depreciation is provided on a straight-line basis at rates calculated to write off the cost, less the estimated residual value, of each asset over its expected useful life as follows:

	years
Technical equipment/hardware	2–6
Office equipment and fit-out	3–12

Each financial year the Group reviews all of its depreciation rates and residual values to take account of any changes in circumstances. When setting useful economic lives, the principal factors the Group takes into account are the expected rate of technological developments, expected market requirements for the equipment and the intensity at which the assets are expected to be used.

2.13 IMPAIRMENT

This policy covers all assets except financial assets and deferred tax assets.

A review of all non-financial assets is carried out on each reporting date to ascertain whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. Impairment reviews are performed by comparing the carrying value of the non-current asset with its recoverable amount, being the higher of the fair value less costs of disposal and value in use. The fair value less costs of disposal is considered to be the amount that could be obtained on disposal of the asset, and therefore is determined from a market participant perspective. The recoverable amount under both calculations is determined by discounting the future pre-tax cash flows generated from continuing use of the cash generating unit (CGU) using a pre-tax discount rate. Fair value less costs of disposal calculations are prepared on a post-tax basis, and are classified as level 3 in the fair value hierarchy.

Where the asset does not generate cash flows that are independent from the cash flows of other assets, the Group estimates the recoverable amount of the CGU to which the asset belongs. For the purpose of conducting impairment reviews, CGUs are considered to be groups of assets that have separately identifiable cash flows. They also include those assets and liabilities directly involved in producing the income and a suitable proportion of those used to produce more than one income stream.

An impairment loss is taken first against any specifically impaired assets.

Where an impairment is recognised against a CGU, the impairment is first taken against goodwill balances and if there is a remaining loss it is set against the remaining intangible and tangible assets on a pro-rata basis.

Should circumstances or events change and give rise to a reversal of a previous impairment loss, the reversal is recognised in the income statement in the period in which it occurs and the carrying value of the asset is increased. The increase in the carrying value of the asset is restricted to the amount that it would have been had the original impairment not occurred. Impairment losses in respect of goodwill are irreversible.

2.14 OTHER INVESTMENTS

Other investments are recognised at cost net of any impairment losses. Where the fair value of an investment cannot be reliably measured, then is should be measured at cost.

Cost includes expenditure that is directly attributable to the acquisition of the investment. Subsequent costs are included in the investment's carrying value or recognised as a separate investment as appropriate, only when it is probable that future economic benefits associated with the specific investment will flow to the Group and the cost can be measured reliably.

2.15 LEASING

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating leases

Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term.

Finance leases

ZEAL Group does not have any finance leases.

2.16 BUSINESS COMBINATIONS

(I) Subsidiaries

The acquisition method is used to account for business combinations.

The identifiable net assets (including intangibles) are incorporated into the financial statements on the basis of their fair value from the effective date of control, and the results of subsidiary undertakings acquired during the financial year are included in the Group's results from that date.

On the acquisition of a company or business, fair values reflecting conditions at the date of acquisition are attributed to the identifiable assets (including intangibles), liabilities and contingent liabilities acquired.

Fair values of these assets and liabilities are determined by reference to market values, where available, or by reference to the current price at which similar assets could be acquired or similar obligations entered into, or by discounting expected future cash flows to present value, using either market rates or the risk-free rates and risk-adjusted expected future cash flows.

The consideration transferred is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of the acquisition, and also includes the Group's estimate of the fair value of any deferred consideration payable. Acquisition-related costs are expensed as incurred.

Where the business combination is achieved in stages and results in a change in control, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Where the business combination agreement provides for an adjustment to the cost that is contingent on future events, the consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. On an acquisition by acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

(II) Associates and joint ventures

On acquisition the investment in associates and joint ventures is recorded initially at cost. Subsequently, the carrying amount is increased or decreased to recognise the Group's share of the associates' and joint ventures' income and expenses after the date of acquisition. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is not tested for impairment separately.

Fair values reflecting conditions at the date of acquisition are attributed to the Group's share of identifiable assets (including intangibles), liabilities and contingent liabilities acquired. The consideration transferred is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of the acquisition, and also includes the Group's estimate of the fair value of any deferred consideration payable.

The date significant influence or joint control commences is not necessarily the same as the closing date or any other date named in the contract.

Investments in associates and joint ventures are reviewed for impairment if an impairment trigger is identified. Refer to 2.13 for further detail.

2.17 FINANCIAL ASSETS AND LIABILITIES

Financial assets and financial liabilities are initially recorded at fair value (plus any directly attributable transaction costs, except in the case of those classified at fair value through profit or loss). For those financial instruments that are not subsequently held at fair value, the Group assesses whether there is any objective evidence of impairment at each balance sheet date.

Financial assets are recognised when the Group has rights or other access to economic benefits. Such assets consist of cash, equity instruments, a contractual right to receive cash or another financial asset, or a contractual right to exchange financial instruments with another entity on potentially favourable terms. Financial assets are derecognised when the right to receive cash flows from the asset have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Financial liabilities are recognised when there is an obligation to transfer benefits and that obligation is a contractual liability to deliver cash or another financial asset or to exchange financial instruments with another entity on potentially unfavourable terms. Financial liabilities are derecognised when they are extinguished, that is discharged, cancelled or expired.

If a legally enforceable right exists to set off recognised amounts of financial assets and liabilities, which are in determinable monetary amounts, and there is the intention to settle net, the relevant financial assets and liabilities are offset.

Interest costs are charged to the income statement in the year in which they accrue. Premiums or discounts arising from the difference between the net proceeds of financial instruments purchased or issued and the amounts receivable or repayable at maturity are included in the effective interest calculation and taken to net finance costs over the life of the instrument.

There are five categories of financial assets and financial liabilities. These are described as follows:

(I) Financial assets and financial liabilities at fair value through profit or loss

Financial assets and financial liabilities at fair value through profit or loss include derivative assets and derivative liabilities not designated as effective hedging instruments. All gains or losses arising from changes in the fair value of financial assets or financial liabilities within this category are recognised in the income statement.

Derivative financial assets and financial liabilities

Derivative financial assets and financial liabilities are financial instruments whose value changes in response to an underlying variable, require little or no initial investment and are settled in the future.

These include derivatives embedded in host contracts. Such embedded derivatives need not be accounted for separately if the host contract is already fair valued; if it is not considered as a derivative if it was freestanding; or if it can be demonstrated that it is closely related to the host contract. There are certain currency exemptions which the Group has applied to these rules which limit the need to account for certain potential embedded foreign exchange derivatives. These are:

- If a contract is denominated in the functional currency of either party;
- Where that currency is commonly used in international trade of the good traded; or if it is commonly used for local transactions in an economic environment.

Derivative financial assets and liabilities are analysed between current and non-current assets and liabilities on the face of the balance sheet, depending on when they are expected to mature.

(II) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities of greater than twelve months after the balance sheet date which are classified as non-current assets. Loans and receivables are initially recognised at fair value including originating fees and transaction costs, and subsequently measured at amortised cost using the effective interest method less any provision for impairment.

Loans and receivables include trade receivables, amounts owed by associates, amounts owed by joint ventures, accrued income and cash and cash equivalents.

When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount by discounting the estimated future cash flows at the original effective interest rate and continuing to unwind the discount as interest income.

a. Trade receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost less provision for impairment.

A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the terms of the receivables. The amount of the provision is the difference between the asset's carrying value and the present value of the estimated future cash flows discounted at the original effective interest rate. This provision is recognised in the income statement.

b. Cash, cash equivalents and pledged cash

In the consolidated balance sheet, cash and cash equivalents includes cash in hand, pledged cash, bank deposits repayable on demand and other short-term highly liquid investments with original maturities of three months or less. Where investments have a maturity of greater than three months but if there is no penalty for withdrawal these are considered to be cash equivalents.

(III) Available for sale investments

Available for sale investments are non-derivative financial assets that are either designated in this category or not classified as financial assets at fair value through profit or loss, or loans and receivables. Investments in this category are included in non-current assets unless management intends to dispose of the investment within twelve months of the balance sheet date. They are initially recognised at fair value plus transaction costs and are subsequently remeasured at fair value and tested for impairment. Where it is not possible to reliably measure the fair value of the investment, the investment is carried at cost and measured for impairment at each reporting date. Gains and losses arising from changes in fair value including any related foreign exchange movements are recognised in other comprehensive income. On disposal or impairment of available for sale investments, any gains or losses in other comprehensive income are reclassified to the income statement.

Purchases and sales of investments are recognised on the date on which the Group commits to purchase or sell the asset. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

(IV) Held-to-maturity financial assets
Held-to-maturity financial assets are recognised initially at fair value. These assets are then re-measured at amortised cost, using the effective interest method, less any impairment.

(V) Financial liabilities held at amortised cost
Financial liabilities held at amortised cost include trade payables, accruals, amounts owed to associates, amounts owed to joint ventures and other payables, and borrowings.

Trade payables
Trade payables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method. Trade payables are analysed between current and non-current liabilities on the face of the balance sheet, depending on when the obligation to settle will be realised.

2.18 EQUITY AND DISTRIBUTIONS

(I) Share capital, debt and equity instruments issued
Ordinary shares are classified as equity. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by ZEAL are recognised when the proceeds have been received, net of direct issue costs. Issue costs are those costs which would not have been incurred if the equity instrument had not been issued.

A repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Debt and equity instruments issued by a Group company are classified as financial liabilities or equity depending on the economic substance of the contractual agreement.

(II) Dividend distributions
Dividend distributions to equity holders of ZEAL Network SE are recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders. Interim dividends are recognised when paid. Dividends declared after the balance sheet date are not recognised as there is no present obligation at the balance sheet date.

2.19 PROVISIONS

Provisions are recognised when there is a present obligation, whether legal or constructive, as a result of a past event for which it is probable that a transfer of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Such provisions are calculated on a discounted basis where the effect is material to the original undiscounted provision. The carrying amount of the provision increases in each period to reflect the passage of time and the unwinding of the discount and the movement is recognised in the income statement within finance costs.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

2.20 CONTINGENT LIABILITIES

Contingent liabilities are not recognised in the consolidated financial statements. Contingent liabilities are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Details of contingent liabilities recorded at 31 December 2016 are included in note 27 to the consolidated financial statements.

2.21 EMPLOYEE BENEFITS

The Group operates various employee benefits including profit-sharing, bonus plans and long-term incentives as well as other post-employment schemes including termination benefits and defined contribution pension plans.

(I) Profit sharing, bonus plans and long-term incentives
The Group recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision contractually obliged or where there is a past practice that has created a constructive obligation.

(II) Termination benefits
Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for restructuring within the scope of IAS 37, which involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of months employees worked for the Group. Benefits falling due more than twelve months after the end of the reporting period are discounted to their present value.

(III) Defined contribution pension plans
The contributions to defined contribution plans are recognised as an expense as the costs become payable. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(IV) Cash-settled share-based payments
For cash-settled share-based payment schemes, a liability is recognised based on the fair value of the payment earned by the balance sheet date. The fair value of the phantom share options granted is recognised over the vesting period to reflect the value of the employee services received. The charge relating to grants to employees is recognised as an expense in the income statement.

The fair value of options granted, excluding the impact of any non-market vesting conditions, is calculated using the Monte-Carlo model. The probability of meeting non-market vesting conditions, which include profitability targets, is used to estimate the number of share options that are likely to vest.

3 SEGMENT REPORTING

SEGMENTAL DISCLOSURE PRESENTATION

The Group's reportable operating segments reflect the management structure of the Group, the way performance is evaluated and the way resources are allocated by the Chief Operating Decision Maker (CODM), being the Board of Directors.

We monitor the performance of the B2C segment based on 'normalised' revenue and EBIT (statutory revenue and EBIT adjusted to the statistically expected prize pay-outs) and actual results for the B2B/B2G segment. The disclosures included in the operating segment note below are consistent with the Group's internal reporting and 'normalised' performance is given due prominence in the disclosure as this is the way in which we analyse the Group. A fuller description of 'normalisation' is included in the business review section of this report. Included within the note below is a reconciliation between the segmental results used to assess the lines of business and our consolidated statutory performance where statistically expected pay-outs are replaced with actual cash outflows. Inter-segment transactions are also eliminated as part of this process. Descriptions of the significant reconciling items are also included below the relevant tables.

The operating segments are Business-to-Consumer (B2C) and Business-to-Business/Business-to-Government (B2B/B2G). We have described the composition of the segments in more detail below:

B2C Segment
B2C's operating results comprise the secondary lottery betting business ('secondary lottery'), sales of Instant Win Games products, direct costs and an allocation of the shared cost base.

B2B/B2G Segment
The B2B/B2G segment comprises the remainder of the Group's core operating activities including:

- The lottery brokerage business in Spain.
- The international services business for lottery operators including online operation of the lottery games of the Spanish lottery operator ONCE (a national organisation for blind and disabled people).
- The international business that offers digital services to private business partners or state lotteries.
- Segmental results presented are attributable to the operating activities of the B2B/B2G segment together with an allocation of shared costs.

Business unit segment reporting **2016**	B2C	B2B/B2G	Business unit total	Reconciliation to stats	– thereof normalisation adjustments	– thereof other	Statutory
in €k	A	B	A+B=C	D+E=F	D	E	C+F
Revenue	138,594	6,686	145,280	(32,345)	(32,580)	235	112,935
Other operating income	2,626	308	2,934	23,769	19,716	4,053	26,703
Total Operating Performance	**141,220**	**6,994**	**148,214**	**(8,576)**	**(12,864)**	**4,288**	**139,638**
EBITDA	**64,545**	**(9,782)**	**54,763**	**(14,641)**	**(12,864)**	**(1,777)**	**40,122**
Depreciation/amortisation	(1,554)	(612)	(2,166)	–	–	–	(2,166)
EBIT	**62,991**	**(10,394)**	**52,597**	**(14,641)**	**(12,864)**	**(1,777)**	**37,956**
Financial result	–	–	–	(1,445)	–	(1,445)	(1,445)
EBT	**–**	**–**	**52,597**	**(16,086)**	**(12,864)**	**(3,222)**	**36,511**
Income tax	–	–	–	(10,560)	–	(10,560)	(10,560)
Net profit/loss	**–**	**–**	**52,597**	**(26,646)**	**(12,864)**	**(13,782)**	**25,951**

The principal reconciling items between the aggregated business unit results and the consolidated statutory results are attributable to two main categories being:

- 'Normalisation' adjustments (column 'thereof normalisation adjustments') – these adjustments bridge the quantum of statistically expected pay-outs included within the business unit column to consolidated statutory results which include actual cash outflows.
- 'Other' adjustments (column 'thereof other') – the most significant adjustments in 2016 relate to the following items:
  - Other operating income of €3.4m related to the release of dormant customer accounts.
  - A charge associated with the acquisition of GGGL and Geo24 amounting to approximately €1,340k recorded within EBITDA and EBIT described in detail in note 6 to the consolidated financial statements.
  - An impairment charge on amounts drawn by GGGL on the convertible loan facility of €1,598k recorded within financial result (described in the business review section above). The remaining gain of €153k included within this category relates to net income receivable accrued in the normal course of business.
  - Other items impacting revenue and other operating income relate to external revenue and other operating income generated by Schumann e.K. This company does not form part of either the B2C or B2B/B2G segments.
  - Remaining reconciling items do not warrant further commentary.

Business unit segment reporting

2015

	B2C	B2B/B2G	Business unit total	Reconciliation to stats	– thereof normalisation adjustments	– thereof other	Statutory
in €k	A	B	A+B=C	D+E=F	D	E	C+F
Revenue	132,521	6,277	138,798	(49,836)	(52,227)	2,391	88,962
Other operating income	3,607	307	3,914	48,110	47,951	159	52,024
Total Operating Performance	**136,128**	**6,584**	**142,712**	**(1,726)**	**(4,276)**	**2,550**	**140,986**
EBITDA	**62,357**	**(8,134)**	**54,223**	**(4,211)**	**(4,276)**	**65**	**50,012**
Depreciation/amortisation	(6,380)	(575)	(6,955)	(198)	–	(198)	(7,153)
EBIT	**55,977**	**(8,709)**	**47,268**	**(4,409)**	**(4,276)**	**133**	**42,859**
Financial result	–	–	–	(23,255)	–	(23,255)	(23,255)
EBT	**–**	**–**	**47,268**	**(27,664)**	**(4,276)**	**(23,388)**	**19,604**
Income tax	–	–	–	(18,258)	–	(18,258)	(18,258)
Net profit/loss	**–**	**–**	**47,268**	**(45,922)**	**(4,276)**	**(41,646)**	**1,346**

- 'Other' adjustments (column 'thereof other') – the most significant adjustments in 2015 relate to the following items:
  - External revenue and other operating income generated by Schumann e.K. This company does not form part of either the B2C or B2B/B2G segments.
  - Investments in GGGL were written down to €nil at 31 December 2015, with an impairment charge of €14,965k recorded within financial result.
  - Investments in Geo24 were written down to €nil at 31 December 2015, with an impairment charge of €7,428k recorded within financial result.
  - Remaining reconciling items do not warrant further commentary.

4 OTHER OPERATING INCOME

	2016	2015
in €k		
Income from hedging transactions	1,910	50,788
Income from special insurance policies	20,000	–
Release of dormant customer accounts	3,397	–
Other	1,396	1,236
Other operating income	**26,703**	**52,024**

Income from hedging activities relates to income generated from tickets hedged through the Group's wholly owned subsidiary Ventura24 S.L.U (Ventura24).

The income generated from special insurance policies relates to the pay-out on an insurance policy taken out on a large draw on the German Lotto in May 2016.

The release of dormant customer accounts of €3.4m was authorised by the Directors of Tipp24 Services Limited. The release related specifically to customer account balances where no activity had been recorded at least in the last 26 months and all procedures have been completed to contact the customer. The release of these account balances is in full compliance with publicly available terms and conditions included on the tipp24.com website and significant diligence was performed prior to the authorisation of this release.

5 OTHER OPERATING EXPENSES

	2016	2015
in €k		
Marketing expenses	14,830	9,958
Direct costs of operations	33,909	31,362
Other costs of operations	21,666	25,558
Other operating expenses	**70,405**	**66,878**

The increase in the operating expenses balance is attributable to the following movements in cost categories:

- Increase of €4.9m in marketing investment to drive customer acquisition and re-activation of B2C's customer base.
- The main drivers of the increase in direct cost of operations are as follows:
  - The cost of hedging transactions increased from €19.6m in 2015 to €21.3m in 2016, representing a year-on-year movement of €1.7m. This was driven by an increase in special jackpot insurance to hedge against the Group's exposure to special draws.
  - Increase in non-deductible VAT of €1.4m resulting from a change in the Group's UK VAT structure.
- The decrease in other cost of operations from €25.6m in 2015 to €21.7m in 2016 is mainly attributable to savings of:
  - €1.2m in consultancy expenses due to projects being completed in 2015.

The remaining movement is attributable other movements that are individually immaterial.

- Other costs of operations include fees charged by the auditor, Ernst & Young, LLP, and its affiliates summarised in the table below.

Auditor's remuneration	2016	2015
in €k		
Audit of the financial report of the Group and any other entity in the consolidated group	509	494
Tax advisory	251	50
Tax compliance	20	18
Other non-audit services	19	–
Total auditor remuneration	**799**	**562**

6 ACQUISITION OF GEONOMICS GLOBAL GAMES LIMITED (GGGL) AND GEO24 UKLIMITED (GEO24)

During Q1 2016, ZEAL Group entered into a number of separate transactions with GGGL and Geo24 in advance of and as part of the purchase of the non-ZEAL owned shareholdings. The nature of these transactions together with the accounting impact for each is set out below:

6.1 IMPAIRMENT OF LOANS ADVANCED TO GGGL UNDER THE CONVERTIBLE LOAN FACILITY

As noted in the 2015 Annual Report, in July 2015, Tipp24 Investment 1 Limited entered into an agreement with GGGL to provide a convertible loan facility amounting to £2.6m (with a further £0.4m available if certain targets were met) to fund the working capital of GGGL. The loan facility bears an interest rate of 50% per annum if KPIs included in the facility are met and 70% per annum if the KPIs are not met.

At 31 December 2015, the loan facility remained undrawn and the required KPIs had not been met. There was therefore no impact on the consolidated financial statements for the year ended 31 December 2015. The first draw-downs totalling £1.25m occurred in January 2016 and February 2016. The Group provided against these amounts in full on the date of each draw-down as the Group believed that there was significant uncertainty over whether the funds would be repaid. All draw-downs were effected well in advance of the completion date and, as such, do not form part of the cost of acquisition of GGGL and Geo24 (set out at 6.2 below). A charge of €1,598k relating to the amounts drawn on the facility has been separately recorded within the consolidated income statement as an impairment of convertible loan. No interest income was recognised on the loan draw-downs as there was insufficient uncertainty that any interest income accrued would be recovered.

6.2 ACQUISITION OF NON-ZEAL OWNED SHARES IN GGGL AND GEO24

At 31 December 2015, Tipp24 Investment 1 Limited, a wholly owned subsidiary of ZEAL Network SE, held 104,965 ordinary shares in Geonomics Global Games Limited (GGGL). GGGL is a software licensing and development company incorporated in the UK. On 29 January 2016, ZEAL Group exercised 37,738 warrants and was granted 37,738 new ordinary shares in exchange for consideration of £377. Post warrant exercise, ZEAL Group owned 142,703 shares in GGGL or 32.13% of the total shares in issue at that date (444,081 ordinary shares).

As noted in the 2015 Annual Report, the Directors made the decision to purchase the non-ZEAL owned shares of GGGL during Q1 2016 as both parties believed that the technical know-how and expertise of the personnel employed by GGGL and its joint venture Geo24 UK Limited (Geo24) would fit well with ZEAL Group's wider growth aspirations. On 10 March 2016, the Group signed a share purchase agreement (SPA) with the shareholders of GGGL to acquire the remaining issued share capital of GGGL that was not owned by ZEAL Group at 29 January 2016. As GGGL owned the non-ZEAL owned shares of Geo24 at the acquisition date, ownership of 100% of the issued share capital of GGGL lead to full control of Geo24 passing to the ZEAL Group.

The remaining shares in GGGL that were in issue at the SPA signing date, but not owned or beneficially owned by ZEAL Group (301,378 ordinary shares), were acquired from the non-ZEAL shareholders on 30 March 2016 for consideration of £814k (€1,041k) (representing a value of £2.70 (€3.45) per share). The excess of the purchase consideration over the fair value of net liabilities acquired in GGGL and Geo24, resulting in a charge of €1,340k, was written off to the consolidated income statement in March 2016. This charge, effectively representing recruitment costs, was recorded as a loss on acquisition.

Immediately following the acquisition ZEAL management implemented the decisions made prior to the acquisition in relation to the technical staff and the Geo24 websites. The technical staff employed by GGGL were assigned to existing B2B/B2G projects developed by the ZEAL Group. Furthermore, before the end of Q1 2016, the websites run by Geo24 prior to acquisition were shut down. As neither the business of GGGL nor the business of Geo24 was capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors, the Directors of the Company concluded that neither GGGL nor Geo24 constituted 'businesses' as defined in IFRS 3 – Business Combinations.

Although neither GGGL nor Geo24 constituted businesses as defined by IFRS 3 – Business Combinations and the related disclosure requirements are therefore not required, the Directors believe that details of the assets and liabilities acquired and consideration transferred would be informative to users of the financial statements. The following table summarises the consideration transferred for control of GGGL and details of the assets acquired and liabilities assumed at the acquisition date in GGGL and Geo24. No goodwill was recorded on acquisition.

Recognised amounts of identifiable assets acquired and liabilities assumed	GGGL	Geo24	Total
in €k			
Cash and cash equivalents	278	140	418
Trade receivables	3	–	3
Other current assets and prepaid expenses	231	3	234
Trade payables	(8)	–	(8)
Other liabilities and short-term provisions	(752)	(56)	(808)
Income tax liabilities	(138)	–	(138)
Total identifiable net liabilities			**(299)**
Consideration transferred for 67.87% of GGGL (301,378 shares)[1]	(1,041)		
Consideration transferred			**(1,041)**
Total loss on acquisition			**(1,340)**

[1] *Consideration transferred on acquisition of Geo24 UK Limited was €nil.*

Net cash outflow arising on acquisition	
in €k	
Cash consideration	(1,041)
Less: cash and cash equivalents balances acquired	418
Acquisition, net of cash	**(623)**

No contingent consideration is payable in relation to the acquisition.

7 FINANCE INCOME AND COSTS

	2016	2015
in €k		
Finance income		
Other interest and similar income	52	5
Income from other long-term securities and loans	338	253
	390	**258**
Finance costs		
Interest expense and similar charges	(237)	(1,120)
	(237)	**(1,120)**

8 INCOME TAX EXPENSE

Income taxes paid or payable as well as deferred taxes and withholding taxes are recognised within the income taxes line item. The blended corporate income tax rate in the UK amounts to 20.0% (2015: 20.25%).

In the case of foreign companies, the respective country-specific regulations and tax rates are used for the calculation of current income taxes.

Deferred taxes under IAS 12 are calculated at the anticipated average tax rate at the time the differences are reversed. For the calculation of deferred taxes, the total tax rate for domestic UK tax registered companies amounted to 17% (2015: 20%). In the case of foreign companies, the respective country-specific regulations and tax rates were used to calculate deferred taxes.

Income statement	2016	2015
in €k		
Current taxation:		
Charge for the year	11,138	18,406
Adjustments in respect of prior years	(784)	(507)
Withholding taxes and other remittance taxes	–	–
Total current taxation	**10,354**	**17,899**
Deferred taxation:		
Charge for the year	206	278
Adjustments in respect of prior years	–	81
Total deferred taxation	**206**	**359**
Total taxation expense (income statement)	**10,560**	**18,258**

The €784k adjustments in respect of prior years is comprised of €104k plus €680k included in 'other tax items', which is disclosed below.

No taxation was charged or credited through other comprehensive income during 2016.

Tax rate reconciliation	2016	2015
in €k		
Profit before taxation	**36,511**	**19,604**
Expected tax charge at standard UK rate of 20.0% (2015: 20.25%)	7,302	3,969
Exempt income	(33)	(189)
Share of results of associates and joint ventures	–	1,091
Non-deductible expenses:		
Impairment charges	–	3,453
Other non-deductible expenses	66	430
Adjustments in foreign tax rates	233	34
Adjustments in respect of prior years	(104)	(507)
Tax loss utilisation	(305)	(50)
Unrecognised tax losses carried forward	4,158	4,703
Deferred tax asset no longer recognised	–	–
Other tax items	(757)	5,324
Total taxation expense	**10,560**	**18,258**

Included within other tax items is a credit of €0.7m relating to the partial release of a provision recorded at 31 December 2015, concerning a tax audit of business years 2008 to 2011. This audit was ongoing at 31 December 2015 and the provision of €3.0m recorded was the Directors' best estimate of the outflow of economic benefits at that time. During 2016, the case was settled and an amount of €2.3m was paid to the relevant tax authority leading to the release of the remaining provision (€0.7m).

9 PROPERTY, PLANT AND EQUIPMENT

Cost	Office equipment	Hardware	Office equipment under construction	Total
in €k				
Balance as at 1 January 2015	**3,055**	**4,445**	**159**	**7,659**
Additions	440	169	15	624
Disposals	(32)	(8)	(163)	(203)
Balance as at 31 December 2015	**3,463**	**4,606**	**11**	**8,080**
Additions	112	329	11	452
Transfer between classes	18	–	(18)	–
Disposals	–	(120)	–	(120)
Balance as at 31 December 2016	**3,593**	**4,815**	**4**	**8,412**

Accumulated depreciation	Office equipment	Hardware	Office equipment under construction	Total
in €k				
Accumulated depreciation as at 1 January 2015	**(1,021)**	**(3,702)**	**–**	**(4,723)**
Provided during the year	(646)	(506)	–	(1,152)
Disposals	11	8	–	19
Accumulated depreciation as at 31 December 2015	**(1,656)**	**(4,200)**	**–**	**(5,856)**
Provided during the year	(459)	(324)	–	(783)
Disposals	5	123	–	128
Accumulated depreciation as at 31 December 2016	**(2,110)**	**(4,401)**	**–**	**(6,511)**

Book value	Office equipment	Hardware	Office equipment under construction	Total
in €k				
As at 31 December 2015	**1,807**	**406**	**11**	**2,224**
As at 31 December 2016	**1,483**	**414**	**4**	**1,901**

There are no assets held under finance leases (2015: none).

10 INTANGIBLE ASSETS

Cost	Software	Other software	Licences	Total
in €k				
Balance as at 1 January 2015	**23,792**	**7,949**	**184**	**31,925**
Additions	–	332	–	332
Disposals	–	–	–	–
Balance as at 31 December 2015	**23,792**	**8,281**	**184**	**32,257**
Additions	–	240	–	240
Disposals	–	(755)	–	(755)
Balance as at 31 December 2016	**23,792**	**7,766**	**184**	**31,742**

Accumulated amortisation	Software	Other software	Licences	Total
in €k				
Accumulated amortisation as at 1 January 2015	**(18,594)**	**(5,685)**	**(32)**	**(24,311)**
Provided during the year	(4,798)	(1,185)	(18)	(6,001)
Disposals	–	–	–	–
Accumulated amortisation as at 31 December 2015	**(23,392)**	**(6,870)**	**(50)**	**(30,312)**
Provided during the year	(400)	(965)	(18)	(1,383)
Disposals	–	755	–	755
Accumulated amortisation as at 31 December 2016	**(23,792)**	**(7,080)**	**(68)**	**(30,940)**

Book value	Software	Other software	Licences	Total
in €k				
As at 31 December 2015	**400**	**1,411**	**134**	**1,945**
As at 31 December 2016	**–**	**686**	**116**	**802**

The item 'Software' refers to the value of gaming software. The item 'Other software' contains all other software products including gaming platforms.

There are no restrictions on rights of disposal for the above mentioned intangible assets. No assets were pledged as collateral for liabilities. The remaining useful lives of intangible assets are between one and five years.

11 DEFERRED TAXATION

Deferred taxation movement schedule	**2016**	2015
in €k		
At 1 January	**781**	**1,140**
Charged to income statement	(206)	(359)
Deferred tax on items charged to other comprehensive income	–	–
At 31 December	**575**	**781**

Deferred tax assets	Fixed asset allowances	Other temporary differences	Tax losses and other credits	**Total**
in €k				
At 1 January 2015	**523**	**536**	**81**	**1,140**
Charged to income statement	(88)	(190)	(81)	(359)
At 1 January 2016	**435**	**346**	**–**	**781**
Charged to income statement	(20)	(186)	–	(206)
At 31 December 2016	**415**	**160**	**–**	**575**

The main rate of UK corporation tax will be reduced from 20% to 19% from 1 April 2017 and was due to be reduced to 18% from 1 April 2020. These changes were substantively enacted on 26 October 2015. In the 2016 Finance Act, the main rate of corporation tax was reduced to 17% from 1 April 2020. Royal ascent was received on 15 September 2016. The Group has therefore recognised its deferred tax balances at 17% as this is the rate expected to be in place prevailing when the deferred tax asset balances are forecast to be reversed.

Of the deferred tax assets carried by the Group, an amount of €nil (2015: €nil) refers to tax loss carryforwards, and an amount of €575k (2015: €781k) to temporary differences. Deferred tax assets recognised will be utilised over the useful life of each asset – useful lives are set out in the accounting policy above. The utilisation of deferred tax assets recorded is not dependent on future taxable profits in excess of the profits arising from the reversal of existing taxable temporary differences.

Of total tax loss carry forwards amounting to €64,827k as of 31 December 2016 (2015: €46,178k), the Group did not recognise related deferred tax assets amounting to €12,449k (2015: €10,475k). A significant part of the tax losses arose in Germany and Spain and the value of the unrecognised deferred tax asset has been calculated at the substantively enacted rates of these countries. The tax losses do not expire.

Deferred tax assets have not been recognised in respect of these losses as there is currently uncertainty as to whether the related entities will generate sufficient taxable profit in the future against which any deferred tax asset created could be reversed.

Deferred tax assets in respect of tax credits arising which are carried forward for offset against future profits are not recognised unless it is probable that future profits will arise. The tax credits do not expire.

At 31 December 2016, there were no recognised or unrecognised deferred tax liabilities (2015: €nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, associates or joint ventures. Management has determined that undistributed profits of its subsidiaries, joint ventures or associates will not be distributed in the foreseeable future.

There are no income tax consequences attached to the payment of dividends by the Group to its shareholders in 2016 and 2015.

12 INVESTMENT IN AN ASSOCIATE

At 31 December 2015, the Group owned 25.7% of the shares issued by GGGL. On 29 January 2016, the Group exercised vested warrants that increased its shareholding to 32.13%. On 30 March 2016, the Group completed the purchase of the remaining 67.87% of the issued share capital of GGGL in exchange for consideration of £0.8m (€1.0m).

Further explanation is included in note 6 to the consolidated financial statements.

Investments in GGGL were written down to €nil at 31 December 2015. No share of GGGL's loss was therefore accounted for in the year ended 31 December 2016.

SUMMARISED FINANCIAL INFORMATION

Summarised financial information of GGGL is as follows:

	2016	2015
in €k		
Net assets	–	49,899
25.7% share of the net assets	–	12,824
Group's carrying amount of the investment	–	12,824
Impairment to carrying amount of investment	–	(12,824)
Group's carrying value of investment post impairment	**–**	**–**

	2016	2015
in €k		
Loss from continuing operations	–	(6,842)
Total comprehensive loss	–	(6,842)
Group's share of loss (25.7%)	–	(1,758)
Group's share of amortisation of fair value adjustments on initial acquisition	–	(383)
Result from associated company recorded	**–**	**(2,141)**

13 INTEREST IN A JOINT VENTURE

At 31 December 2015, the Group had a 50% interest in Geo24 UK Limited (Geo24). On the 30th March 2016, the Group completed the purchase of the remaining 67.87% of the issued share capital of GGGL. As GGGL owned 50% of the shares issued by Geo24 at the acquisition date, ownership of 100% of the issued share capital of GGGL, led to full control of Geo24 passing to ZEAL Group.

Further explanation is included in note 6 to the consolidated financial statements.

Investments in Geo24 were written down to €nil at 31 December 2015. No share of Geo24's loss was therefore accounted for in the year ended 31 December 2016.

SUMMARISED FINANCIAL INFORMATION

Summarised financial information of Geo24 is as follows:

	2016	2015
in €k		
Net assets	–	**8,454**
50% share of the net assets	–	4,227
Impairment to carrying value of investment	–	(4,227)
Group's carrying amount of the investment	**–**	**–**

	2016	2015
in €k		
Loss from continuing operations	–	(6,402)
Total comprehensive loss	–	(6,402)
Group's share of loss (50%)	–	(3,201)
Result from joint venture recorded	**–**	**(3,201)**

14 SHORT-TERM LOANS

The loan balance of €3,075k (2015: €3,075k) relates to an amount advanced to a third party as part of a pre-existing platform separation agreement. The loan bears an interest rate of 10% per annum. The loan is due to be paid in 2017 and has therefore been classified as current. The fair value of this loan at 31 December 2016 was €3,075k (2015: €2,541k). The Directors are satisfied there is no impairment of this loan. This assessment is undertaken each financial year through examining the financial position of the third party and the market in which the third party operates.

15 OTHER INVESTMENTS

On 16 December 2016, the Group acquired a 10% interest in The Free Postcode Lottery Limited (FPL) located in England, United Kingdom. Cash consideration of €1,198k was paid for 10% of the ordinary shares. FPL is involved in reinventing lotteries for the digital age and is a private entity that is not listed on any public exchange.

	2016	2015
in €k		
Balance as at 1 January 2016	–	–
Additions	1,198	–
Impairment	**–**	**–**
Balance as at 31 December 2016	**1,198**	**–**

The Group has an anti-dilution call option to purchase an extra 20% of the shares at any time within five years from the date of the investment. Both the initial investment and derivative is measured at cost. The carrying value of the derivative at 31 December 2016 is €nil.

16 TRADE AND OTHER RECEIVABLES

At 31 December 2016, trade and other receivables comprised trade receivables of €755k (2015: €430k). The 2015 balance included a €9.6m receivable from the Spanish Tax authority.

17 OTHER CURRENT ASSETS AND PREPAID EXPENSES

in €k	**2016**	2015
Receivables from lottery companies, payment systems and players	4,551	3,588
Provision for doubtful debt	(395)	(193)
Security retainers	54	39
Receivables from gaming operations	**4,210**	**3,434**
Receivables from associated undertakings	27	24
Other debtors	931	1,864
Prepayments and accrued income	5,067	5,068
Payroll taxes and social security receivable	846	846
VAT receivable	1,754	986
Other receivables	**8,625**	**8,788**
Other current and prepaid expenses	**12,835**	**12,222**

All other assets and prepaid expenses are due in less than one year.

At 31 December 2016, an amount of €395k (2015: €193k) was provided against player receivables where the initial direct debit transaction failed. While we continue to seek payment from each customer for all outstanding balances, the Directors have concluded that non-recovery of these amounts is more likely than not and have therefore recorded this provision. Other than the provision recorded above, none of the other receivable balances has been impaired.

18 CASH AND SHORT-TERM FINANCIAL ASSETS

	2016	2015
in €k		
Bank balances	94,710	94,412
Cash on hand	5	8
Pledged cash	268	357
Cash and pledged cash	**94,983**	**94,777**
Short-term financial assets	19,682	12,883
Cash and cash equivalents	**114,665**	**107,660**

Bank balances mainly comprise term deposits on short-term call and with variable interest rates held at various major European banks. At 31 December 2016, ZEAL held available-for-sale short-term financial assets amounting to €17,490k (2015: €7,766k). These deposits comprised fixed-income funds and are broadly spread and of high quality. A change in equity of (€227k) (2015: €48k) was recognised after consideration of deferred taxes.

For the Group's short-term financial assets management assesses if there is objective evidence of a significant or prolonged decline in fair value to determine if any impairment is required. There is no objective evidence that a financial asset or group of financial assets is impaired. No impairment charges were therefore recorded in the consolidated income statement for the year ended 31 December 2016.

The Group also recorded financial assets classified as held-to-maturity of €2,192k as of the balance sheet date (2015: €5,117k). The available-for-sale short-term financial assets and held-to-maturity financial assets are included as 'short-term financial assets' above.

Included within the bank balances of €94,710k (2015: €94,412k) is an amount of €12,222k (2015: €10,778k) to cover customer liabilities.

19 OTHER LIABILITIES

Current	2016	2015
in €k		
Accrued liabilities	8,032	5,926
Accrued liabilities	**8,032**	**5,926**
Liabilities to players and game brokers	12,539	14,024
Liabilities from gaming duty	124	141
Liabilities from gaming operations	**12,663**	**14,165**
Employee benefits	210	–
VAT	1,333	2,510
Payroll related taxes and social security payable	307	377
Tax and social security payable	**1,850**	**2,887**
Total other liabilities – current	**22,545**	**22,978**

All other liabilities – current included in the table above are due in less than one year.

Non-current	**2016**	2015
in €k		
Accrued rent	1,514	1,474
Employee benefits	685	–
Total other liabilities – non-current	**2,199**	**1,474**

Employee benefits

The Group operates a long-term incentive plan arrangement for certain employees. Further details have been disclosed in note 25 to the consolidated financial statements.

All other liabilities – non-current included in the table above are due after more than one year.

20 PROVISIONS

Current	Opening balance 01/01/2016	Utilisation/release	Additions	**Closing balance 31/12/2016**
in €k				
Provisions for litigation	1,054	(718)	–	336
Total	**1,054**	**(718)**	**–**	**336**

Provisions for litigation

Provisions for litigation amounting to €336k at 31 December 2016 (2015: €1,054k) represent management's best estimate of the probable eventual cash outflow that will result from resolution of ongoing legal cases at 31 December 2016. Individual provisions included in provisions for litigation relate to cases that have been in progress for a number of years. It is difficult to predict the timing of any cash outflow that might result from cases awarded against the Group. As such, provisions for litigation have been classified as current liabilities as there is no certainty that any judgement against the Group (leading to an outflow of cash) would take place in annual periods commencing after 2017. No further information has been disclosed on the grounds that this would be seriously prejudicial to the outcome of the disputes.

21 DEFERRED INCOME

Deferred income of €2,251k (2015: €3,977) relates to payments for gaming orders and stakes received prior to 31 December 2016. In accordance with the Group's accounting policies, revenue can only be recognised on these stakes on the date of the respective draw. The Directors expect that all deferred revenue will be released to the consolidated income statement during 2017.

22 EQUITY

22.1 SHARE CAPITAL

The Company's share capital consists of 8,385,088 ordinary shares issued and fully paid (2015: 8,385,088). Shares have no par value. Each share has the right to dividends and there are no preference shares or restrictions.

22.2 AUTHORISED CAPITAL

On 22 June 2016, the Statutes of the Company were amended such that the Executive Board of ZEAL Network – with the approval of the Supervisory Board – can approve allotment of additional share capital up to a value of €1,197k. This increase in share capital can be effected by issuing, on one or more occasions, in whole or in part, new no-par value shares in return for cash or contribution in kind (allotment of shares). The approval to issue additional share capital expires on 21 June 2021.

22.3 SHARE PREMIUM

The balance on the share premium account represents the amounts received in excess of the nominal value of the ordinary and preference shares. Share premium amounted to €21,578k at 31 December 2016 (2015: €21,578k).

22.4 EARNINGS PER SHARE

Earnings per share (basic and diluted) increased from €0.16 per share for the year ended 31 December 2015 to €3.09 for the year ended 31 December 2016. The weighted average number of shares in issue remained equal during 2015 and 2016 at a number of 8,385,088.

Basic earnings per share are calculated by dividing loss or profit for the year attributable to ordinary equity holders of the parent company by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share are calculated by dividing loss or profit for the year attributable to ordinary equity holders of the parent company by the weighted average number of ordinary shares outstanding during the year (increased to account for the diluting effects from stock options, warrant agreement or any other plans in place at the balance sheet date, which may lead to the issuance of an additional number of shares in the future). In fiscal year 2016, there was no dilutive effect as there were no such programs (2015: no dilutive effect).

22.5 OTHER RESERVES

Other reserves amount to €785k (2015: €558k) and represent cumulative gains and losses (including any related foreign exchange movements) arising from changes in the fair value of available for sale financial assets. On disposal or impairment of available for sale assets, any gains or losses in other comprehensive income are reclassified to the income statement.

22.6 FOREIGN CURRENCY TRANSLATION RESERVE

The foreign currency translation reserve records amounts to €143k (2015: €nil) and relates to exchange differences arising from the translation of the financial statements of foreign operations.

22.7 RETAINED EARNINGS

Retained earnings represent the cumulative income and expenses recorded by the Group since inception. Cumulative net income generated since inception has been derived from transactions settled with qualifying consideration, with the exception of unrealised gains and losses due to foreign exchange.

23 SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

The list below includes all subsidiary, associate and joint venture undertakings. The principal country in which each of the below subsidiary undertakings operates is the same as the country in which each is incorporated. Effective interest is the Group's interest in the equity of the associated entity.

Name and registered office	Country	Principal activities	Nature of relationship with ZEAL Network	% effective interest	
				2016	2015
MyLotto24 Limited[1] 20–22 Bedford Row London WC1R 4JS	United Kingdom	Bookmaker	Subsidiary	40	40
Tipp24 Services Limited 49 Clerkenwell Green London EC1R 0EB	United Kingdom	Lottery	Subsidiary	16	16
Tipp24 Deutschland GmbH[1] Kurze Muehren 1 20095 Hamburg	Germany	Lottery	Subsidiary	100	100
Lottovate Deutschland GmbH Kurze Muehren 1 20095 Hamburg	Germany	Lottery	Subsidiary	100	100
Ventura 24 S.L.[1] Leganitos 47 28013 Madrid	Spain	Lottery	Subsidiary	100	100
Ventura24 Games S.A.[1] Leganitos 47 28013 Madrid	Spain	Lottery	Subsidiary	100	100
Smartgames Technologies Limited 20–22 Bedford Row London WC1R 4JS	United Kingdom	Technology services	Subsidiary	40	40
Lottovate Limited[1] One New Change London EC4M 9AF	United Kingdom	B2B/B2G business	Subsidiary	100	100
ZEAL International Limited[1] One New Change London EC4M 9AF	United Kingdom	Lottery	Subsidiary	100	–
Lottovate Nederland B.V. Herengracht 124 1015 BT Amsterdam	Netherland	B2B/B2G business	Subsidiary	100	100
Lottovate United States Inc 2711 Centerville Road, Suite 400 Wilmington, County of New Castle 19808 Delaware	United States of America	B2B/B2G business	Subsidiary	100	100
Tipp24 Investment 1 Limited[1] One New Change London EC4M 9AF	United Kingdom	Holding company	Subsidiary	100	100
Tipp24 Investment 2 Limited[1] One New Change London EC4M 9AF	United Kingdom	Holding company	Subsidiary	100	100

[1] *These subsidiaries are held directly by ZEAL Network.*

Name and registered office	Country	Principal activities	Nature of relationship with ZEAL Network	% effective interest	
				2016	2015
Lotto Network Limited[1] 20–22 Bedford Row London WC1R 4JS	United Kingdom	B2B/B2G business	Subsidiary	100	100
eSailors IT Solutions GmbH[2] Kurze Muehren 1 20095 Hamburg	Germany	Technology Services	Subsidiary	–	40
eSailors IT Solutions Limited 20–22 Bedford Row London WC1R 4JS	United Kingdom	Holding company	Subsidiary	40	40
Geonomics Global Games Limited One New Change London EC4M 9AF	United Kingdom	Holding company	Subsidiary	100	25.7
Geo24 UK Limited One New Change London EC4M 9AF	United Kingdom	Lottery	Subsidiary	100	50.5
Gratis Lotto Ltd 20–22 Bedford Row, London, United Kingdom, WC1R 4JS	United Kingdom	Lottery	Subsidiary	16	–
MyLotto24 Australia PTY Ltd 525 Collins Street, Melbourne, Victoria 3000	Australia	Lottery	Subsidiary	40	–
HSS Corp.[3] 702 S. Carson Street, Suite 200, Carson City, Nevada 89701	United States of America	Lottery	Subsidiary	–	–

[1] These subsidiaries are held directly by ZEAL Network.
[2] During the year eSailors IT Solutions GmbH merged with eSailors IT Solutions Limited.
[3] This subsidiary was incorporated on 10 January 2017. ZEAL Network SE has an indirect interest of 40%.

Section 479A audit exemption

Tipp24 Investment 1 Limited, Tipp24 Investment 2 Limited, Lotto Network Limited, Geonomics Global Games Limited, Geo24 UK Limited, eSailors IT Solutions Limited, Gratis Lotto Limited and ZEAL International Limited will take the exemption available by virtue of section 479A of the Companies Act 2006, which exempts them of the requirements of an audit for the individual accounts.

24 PERSONNEL EXPENSES

The table below shows the full time equivalent average number of employees over the year.

SEGMENTAL ANALYSIS

Director and employee numbers	B2C	B2B/B2G	Total
2016			
Executive Board	3	–	3
General Managers	5	3	8
Employees	155	83	238
Trainees	3	–	3
Temporary personnel	3	–	3
Total	**169**	**86**	**255**

Director and employee numbers	B2C	B2B/B2G	Total
2015			
Executive Board	3	–	3
General Managers	3	2	5
Employees	158	86	244
Trainees	2	–	2
Temporary personnel	2	1	3
Total	**168**	**89**	**257**

Personnel expenses incurred during 2016 are included in the table below:

	2016	2015
in €k		
Wages and salaries	23,718	22,103
Pension contributions	424	307
Social security costs	2,563	3,024
Total employee benefit expenses	**26,705**	**25,434**

These figures include remuneration for the Executive Board, further details of which are included in the Directors' Remuneration Report on pages 40 to 54.

25 SHARE-BASED-PAYMENTS

The Group operates a long-term incentive plan arrangement for certain employees. The scheme provides a cash payment to the employee based on a specific number of phantom shares at grant date and the share price of ZEAL Network SE at the vesting date. The cash payment is dependent on the achievement of internal and external profitability targets over the two- and three-year performance periods and continued employment until the end of the vesting period. The cash payment has no exercise price and therefore the weighted average exercise price in all cases is €nil.

	2016	2015
in €k		
Outstanding at the beginning of the year	–	–
Granted during the year	895	–
Vested in the year	–	–
Forfeited in the year	-	-
Outstanding at the end of the year	**895**	**-**

The weighted average remaining contractual life of the outstanding awards is 1.47 years. The amount charged in the year in relation to the long-term incentive plan was €895k.

The fair value of the awards was calculated using a Monte-Carlo model at the grant date. The fair value is updated at each reporting date as the awards are accounted for as cash settled under IFRS 2 Share-based Payments. The inputs into the model are based on the ZEAL Network SE historic data and the risk-free rate is calculated on government bond rates. The inputs used are:

	2016	2015
Risk-free rate (%)	0%	–
Dividend yield (%)	7.6%	–
Share Price Volatility (%)	37.0%	–
Weighted average fair value per phantom share	€36.89	–

The Share price volatility of the Group's TSR is calculated by using the daily data, over a period commensurate to the remaining performance period for the awards.

26 DIVIDENDS

During 2016, dividends of €2.80 per share (€23,478k) were declared and paid on a quarterly basis (€0.70 per share at the end of each quarter). For proceeding periods, the Executive Board has proposed, and the Supervisory Board has approved, a dividend policy under which the Company will pay annual dividends which are expected to amount to a total of at least €1.00 per share in 2017. An announcement of the amount of each dividend, and the record date for entitlement to the dividend, will be made in advance of payment of the dividend.

Cash flows from dividends paid are classified under financing activities in the cash flow statement and the dividends paid are deducted from retained earnings in the statement of changes in equity.

27 COMMITMENTS AND CONTINGENCIES

OPERATING LEASES

During 2016, ZEAL expensed rental payments for offices amounting to €2,375k (2015: €2,522k). The future minimum lease payments for the above non-cancellable operating leases are as follows:

Minimum lease payment	2016	2015
in €k		
Within 1 year	2,645	1,338
>1 – 5 years	8,322	6,305
>5 years	3,592	4,617
Minimum lease obligations	**14,559**	**12,260**

OTHER FINANCIAL COMMITMENTS

In addition, the Group had significant financial commitments arising from other contracts, including cooperation agreements, insurance contracts, licence agreements and maintenance agreements. These commitments do not meet the definition of provisions in accordance with IAS 37 'Provisions, contingent assets and contingent liabilities' and have therefore been disclosed as a note to the financial statements. Detail of the commitments together with estimated maturity dates are as follows:

	2017	2018	2019	2020	2021 and beyond	Total
in €k						
Other contracts	**10,369**	**9,642**	–	–	–	**20,011**

CONTINGENT LIABILITIES

There is significant uncertainty as to whether VAT is due in respect of certain services provided by the MyLotto24 sub group to customers domiciled in the European Union from 1 January 2015. Furthermore, there is uncertainty in respect of the tax base to be applied in the event that it is ultimately determined that VAT is due on any of these services. Based on a thorough legal assessment, which included a review of the existing legal framework of relevant Member States and existing case law, the Directors consider, that the likelihood of outflow of economic resources is not probable and timings of associated financial impact is uncertain. Accordingly, the Directors have not recorded any liability in the consolidated financial statements. Following recent dialogue with the tax authority in Germany it is estimated that in the event that ZEAL is unsuccessful in its defence, the potential financial effect is €29.0m. The Group is likely to receive a stay of execution once the appeal has been launched and considers its position to be strong. This view has been formed with consideration to independent legal opinions and likely outcomes. Although uncertain, it's expected that an outcome will be known within three to five years. In respect of other taxes and duties, with the exception of those provided in the Group financial statements, the Directors considers it unlikely that any further liability will arise from the final settlement of any such assessments. The Directors will continue to closely monitor any changes.

28 RELATED PARTIES

The Members of Executive Board and Supervisory Board of ZEAL Network, as well as their immediate relatives, are regarded as related parties in accordance with IAS 24 'Related party disclosures'.

Note 23 to the consolidated financial statements provides information about the Group's structure, including details of each subsidiary.

Oliver Jaster is a Member of the Supervisory Board. The operating business of Schumann e.K. was outsourced to a related company of Oliver Jaster, Günther Direct Services GmbH, Bamberg. In return, Günther Direct Services GmbH, Bamberg, received compensation of €114k for the year (2015: €110k). An amount of €9k (2015: €nil) was owed to Günther Direct Services GmbH at 31 December 2016, which was paid in full in January 2017.

Jens Schumann is a Member of the Supervisory Board. Jens Schumann is the sole shareholder of Schumann e.K. This structure has existed in comparable form since 2002 and was chosen because class lotteries only issue sales licences at present to natural persons or companies in which neither the liability of the company or its direct and indirect partners is limited. A cooperation agreement is in place between ZEAL and Schumann e.K., which governs the processing of game participation of class lottery customers by Schumann e.K. Under the terms of the agreement, Schumann e.K. must pay all commissions and other brokerage fees collected in this context to ZEAL. ZEAL provides Schumann e.K. with services in the field of controlling, bookkeeping, marketing and technical services and bears the costs incurred by Schumann e.K. in running its operations. As Schumann e.K. forms part of the ZEAL Group, all charges and income eliminate in full in the consolidated financial statements.

As Jens Schumann operates Schumann e.K. in the interest of ZEAL, ZEAL has undertaken to indemnify him in the event of any personal claims by third parties arising from or in connection with the operation of Schumann e.K. Indemnification is limited to the extent that fulfilment of this indemnification may not cause ZEAL to become insolvent or over-indebted. In his capacity as shareholder of Schumann e.K., Mr. Schumann did not receive any remuneration during the year.

The charitable foundation 'Fondation enfance sans frontières', Zurich, owner of the preference shares of MyLotto24 Limited and Tipp24 Services Limited, has been identified as a related party. In 2016, dividends of £15k (2015: £15k) and donations of €38k (2015: €60k) were paid to the charitable foundation.

Please refer to Remuneration Report for details on Executive Board and Supervisory Board remuneration.

Key Management Personnel disclosures have been made in the Remuneration Report and note 25 to the consolidated financial statements.

There were no other significant transactions with related parties in the year.

29 CAPITAL MANAGEMENT

ZEAL operates a decentralised capital management system. All major decisions concerning the financial structure of the B2B/B2G segment are taken by the Executive Board of ZEAL Network. Capital management activities of the B2C segment are handled by MyLotto24 Limited, with the exception of Tipp24 Services, which operates its own capital management system.

Neither the segments nor the Group as a whole has any externally imposed capital requirements other than the minimum capitalisation rules that apply to subsidiaries in Germany and Spain.

The objective of the capital management policy of all individual segments, and of the Group as a whole, is to maintain investor, creditor and market confidence and sustain future development of the business. Specific principles and objectives of capital management are as follows:

- The capital structures of the B2B/B2G segment and the B2C segment (together 'the segments') consist of shareholders' equity as none of these segments holds any external debt.
- The amount of each segment's surplus equity (i.e. the quantum of equity that exceeds the amount required to secure each segment's stable financial position) is to be used for inorganic acquisitions and the funding of further organic growth in line with the strategic objectives.
- ZEAL Network also monitors the capital structure of all segments to ensure that sufficient equity is available to service external dividend payments.
- While none of the segments currently hold external debt, in the medium-term, ZEAL Network may also leverage its financial position to secure funding to finance growth or future acquisitions.

The capital capacity and requirements of each segment is reviewed on at least a quarterly basis by the Executive Board and Supervisory Board. The objective of these reviews is to ensure that there is sufficient capital available to ensure that external dividend payments can be made and each segment has sufficient resources available to fund ongoing working capital, investment and acquisition plans.

The risks to which ZEAL is exposed are described in the risk report.

30 DISCLOSURES RELATING TO FINANCIAL INSTRUMENTS

30.1 FAIR VALUE

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 – valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 – valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

All financial instruments held by the Group at 31 December 2016 are classified as level 1. For all financial instruments the carrying amount approximates the fair value. Of the short-term financial assets held at 31 December 2016 amounting to €19,682k (2015: €12,883k), €17,490k were available-for-sale financial assets (2015: €7,766k) and €2,192k were held-to-maturity financial assets (€5,117k).

During 2016, there were no transfers between level 1 and level 2 fair value measurements and no transfers into or out of level 3 fair value measurements.

30.2 CREDIT RISK

The scope of the credit risk of ZEAL equals the sum of cash, short-term financial assets, trade receivables and other receivables.

Cash and other financial assets

There may be a default risk both in respect of the cash and short-term financial assets themselves, as well as the related interest accrued.

Due to the high total amount of cash and short-term financial assets held by ZEAL, and the resulting absolute and relative importance, extensive management processes have been established to steer and regularly monitor the Company's investment strategy.

Cash and short-term financial assets are invested in a variety of short-term securities offering as much liquidity and as little volatility as possible, while ensuring broad risk diversification. The overriding objective of the Group's investment strategy is to preserve capital – even at the expense of expected returns.

ZEAL's investment strategy is aimed at spreading and minimising risk by means of multi-dimensional diversification. Firstly, funds are divided into differing investment products, such as sight and term deposits, highly fungible government bonds of Eurozone states and short-term investment fund units. Secondly, we restrict our choice to those investments with good credit ratings. Following regular monitoring, there were no specific default risks in the portfolio as of the balance sheet date.

Trade and other receivables

The Company mainly collects the amounts owed by customers directly, via direct debit or credit card. On the basis of many years of collected data, the risk of returned direct debits or credit card charges is regarded as limited. Missing amounts from such cancellations are charged directly to 'Other operating expenses'.

The Group generates receivables from lottery organisers for the winnings of its customers, which are passed on directly to the winners upon receipt. Due to the credit standing of the lottery organisers, the Group does not expect any significant default on payment.

Receivables from payment systems such as credit card companies entail the risk that the Group's customers themselves fail to meet their payment obligations. This cost is recognised directly in income statement in the event of payment default by a customer.

Contingent assets

There are no contingent assets.

30.3 LIQUIDITY RISK

Due to the sufficiency of its liquid assets, ZEAL is not exposed to any significant liquidity risk. Even in the case of significant restrictions of business against the backdrop of regulatory developments, ZEAL has sufficient liquidity to service the Company's liabilities at any time. Financial liabilities are mainly due immediately and do not accrue interest.

In order to limit the particular risk of high jackpot pay-outs in the B2C segment, MyLotto24 Limited conducts hedging transactions – such as the transfer of payment obligation risks to a so-called catastrophe bond (CAT bond) via an ILS vehicle.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

Year ended 31 December 2016	Within 1 year	Within 1 – 3 years	Within 3 – 5 years	Over 5 years	**Total**
in €k					
Trade payables	5,052	–	–	–	5,052
Other liabilities	20,905	2,199	–	–	23,104
Financial liabilities	123	–	–	–	123
Total	**26,080**	**2,199**	**–**	**–**	**28,279**

Year ended 31 December 2015	Within 1 year	Within 1 – 3 years	Within 3 – 5 years	Over 5 years	**Total**
in €k					
Trade payables	5,013	–	–	–	5,013
Other liabilities	20,091	1,474	–	–	21,565
Financial liabilities	113	–	–	–	113
Total	**25,217**	**1,474**	**–**	**–**	**26,691**

In addition to the amounts presented in the tables above, there are items excluded from Other liabilities, as they are not considered a contractual financial liability. This includes VAT in 2016 of €1,333k (2015: €2,510k) and payroll related taxes and social security of €307k (2015: €377k).

30.4 INTEREST RATE RISK

ZEAL invests the majority of its funds in a combination of fixed term deposits. For these funds, which are mainly held in liquid or short-term investments, there is a general risk from changing interest rates. A sensitivity analysis was conducted for the portfolio of cash and short-term financial assets held on 31 December 2016 with an interest rate increase of 10 basis points. Assuming no changes are made to the portfolio in response to the interest rate increase, there would be a rise in interest income of €1,146k (in a simplified calculation). Under consideration of the duration of those investments currently in the portfolio, there would be an expected reduction of this interest income of €1k. The overall effect, therefore, would be an increase in interest income of €1,145k (2015: €1,074k).

30.5 CURRENCY RISK

The Company is exposed to a currency risk as a result of the GBP exchange rates. The risk arises from payments received and made in foreign currency, which differ from the Company's functional currency and are not always offset by payments in the same currency of the same amount and with the same maturities.

For the presentation of currency risks, IFRS 7 requires sensitivity analyses, which display the effects of hypothetical changes of the relevant risk variables on earnings and equity. In order to determine the currency risk, a fluctuation of the Euro to British Pound exchange rate of 10% was assumed as of 31 December 2016.

On the basis of this assumption, a 10% increase in the value of the Euro against the British Pound would result in a positive effect of €952k (2015: €943k) on earnings. A devaluation of the Euro against the British Pound of 10% would result in a negative effect of €1,167k (2015: €1,921k) on earnings.

In the year ended 31 December 2016 there was a loss from the change in fair value of financial instruments measured at fair value through profit or loss of €1,304k (2015: gain of €1,433k).

The financial assets currently held do not bear any material currency risk.

31 EVENTS AFTER THE BALANCE SHEET DATE

On 25 January 2017, it was resolved that Peter Steiner will be appointed as Chairman of the Supervisory Board with effect from the resignation of Andreas de Maizière as member and Chairman of the Supervisory Board as of the 2017 AGM.

In March 2017, in a secondary lottery held by MyLotto24 Limited, a fully consolidated minority shareholding of ZEAL Network SE, a player has won a prize of approximately €15m. The pay-out amount falls within the self-retention specified in MyLotto24's hedging instruments.

There were no other material subsequent events that required adjustment or disclosure in the financial statements for the financial year ended 31 December 2016 to the date of issue of this report.

COMPANY STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

		2016	2015
ASSETS in €k	Note		
Non-current assets			
Property, plant and equipment		9	13
Deferred tax assets	A	–	–
Investments in subsidiaries	B	31,282	28,649
Loans to Group undertakings	C	11,243	36,751
Other investments	D	1,198	–
Total non-current assets		**43,732**	**65,413**
Current assets			
Trade and other receivables	E	2,368	2,172
Intercompany receivables	C	278	1,060
Other current assets and prepaid expenses		68	81
Cash and pledged cash		1,537	3,645
Total current assets		**4,251**	**6,958**
TOTAL ASSETS		**47,983**	**72,371**

COMPANY STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

		2016	2015
EQUITY & LIABILITIES in €k	Note		
Non-current liabilities			
Other liabilities	F	513	75
Total non-current liabilities		**513**	**75**
Current liabilities			
Trade payables	G	895	4,188
Other liabilities	F	3,894	2,565
Provisions	H	200	667
Total current liabilities		**4,989**	**7,420**
Total liabilities		**5,502**	**7,495**
Equity			
Subscribed capital	I	8,385	8,385
Share premium	I	21,578	21,578
Other reserves		–	–
Retained earnings	I	12,518	34,913
Total equity		**42,481**	**64,876**
TOTAL EQUITY & LIABILITIES		**47,983**	**72,371**

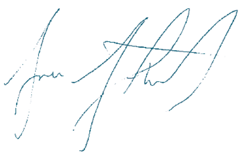
PROFIT FOR THE FINANCIAL YEAR

As permitted by Section 408 of the Companies Act 2006, the parent company's profit and loss account has not been included in these financial statements. The parent company's profit after taxation was €1,083k (2015: €52,249k).

These financial statements were approved by the Executive Board on 23 March 2017 and were signed on its behalf by:

Dr. Helmut Becker
Member of Executive Board

Jonas Mattsson
Member of Executive Board



Susan Standiford
Member of Executive Board

COMPANY STATEMENT OF CASH FLOWS
FOR THE PERIOD 1 JANUARY TO 31 DECEMBER 2016

	2016	2015
in €k		
Profit from continuing operations before tax	231	57,576
Adjustments for		
Depreciation and amortisation of non-current assets	6	4
Impairment of investments	–	99
Finance income	(1,364)	(1,781)
Finance costs	(160)	861
Income from shares in Group undertakings	(16,000)	(109,900)
Other non-cash changes	(2)	28
Changes in		
Trade and other receivables and prepaid expenses	599	(1,719)
Trade payables and other liabilities	1,007	1,257
Interest received	1,364	1,781
Interest paid	160	(861)
Income taxes paid	(2,148)	(2,327)
Cash outflow from operating activities	**(16,307)**	**(54,982)**
Cash flow from investing activities		
Income received from Group undertakings	16,000	109,900
Payments for acquisition of investment	(1,198)	–
Payments for property, plant and equipment	–	(11)
Loans to affiliated companies	25,508	(36,751)
Investments in Group companies	(2,633)	(1,325)
Net cash inflow from investing activities	**37,677**	**71,813**
Cash flow from financing activities		
Dividends paid to the Company's shareholders	(23,478)	(23,478)
Repayment of intercompany loan	–	–
Net cash outflow from financing activities	**(23,478)**	**(23,478)**
Net decrease in cash, pledged cash and short-term financial assets	(2,108)	(6,647)
Cash, pledged cash and short-term financial assets at the beginning of the year	3,645	10,292
Cash and cash equivalents at the end of the financial year	**1,537**	**3,645**
Composition of cash and cash equivalents		
Cash and pledged cash	1,537	3,645
Short-term financial assets	–	–

COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD 1 JANUARY TO 31 DECEMBER

	Subscribed capital	Share premium	Other reserves	Retained earnings	**Total equity**
in €k					
Balance at 1 January 2015	**8,385**	**21,578**	**(22)**	**6,142**	**36,083**
Profit for the year	–	–	–	52,249	52,249
Other comprehensive income	–	–	22	–	22
Total comprehensive income for the year	**–**	**–**	**22**	**52,249**	**52,271**
Transactions with owners in their capacity as owners					
Dividends paid	–	–	–	(23,478)	(23,478)
As at 31 December 2015	**8,385**	**21,578**	**–**	**34,913**	**64,876**
As at 1 January 2016	**8,385**	**21,578**	**–**	**34,913**	**64,876**
Profit for the year	–	–	–	1,083	1,083
Other comprehensive income	–	–	–	–	–
Total comprehensive income for the year	**–**	**–**	**–**	**1,083**	**1,083**
Transactions with owners in their capacity as owners					
Dividends paid	–	–	–	(23,478)	(23,478)
As at 31 December 2016	**8,385**	**21,578**	**–**	**12,518**	**42,481**

ACCOUNTING POLICIES

The Group accounting policies described in Note 2 to the consolidated financial statements also apply to the Company.

A DEFERRED TAX

The utilisation of tax loss carry forward and temporary differences of the holding company is subject to the achievement of taxable profits in periods, which are beyond the Company's current business plan and therefore the utilisation is uncertain. Consequently no deferred tax assets were recognised for these losses and temporary differences. Tax losses on which no deferred tax assets was recorded at 31 December 2016 amounted to €45,879k (2015: €28,721k). There were no material temporary differences at 31 December 2015 or 31 December 2016.

B INVESTMENT IN SUBSIDIARIES

Investments in subsidiaries are recorded at cost. The company assesses investments for impairment whenever events or changes in circumstances indicate that the carrying value of an investment may not be recoverable. If any such indication of impairment exists, the company makes an estimate of its recoverable amount. Where the carrying amount of an investment exceeds its recoverable amount, the investment is considered impaired and is written down to its recoverable amount.

A full list of the Company's direct and indirect subsidiaries is shown in note 23 to the consolidated financial statements.

in €k	
Opening balance	28,649
Additions	2,633
Impairment	–
Closing balance	31,282

Additional investment in the current year relates to a capital contribution of €1,099k in Lottovate Limited and a transfer of the investment in Geonomics Global Games Limited of €1,534k.

The Directors confirm that the investments in subsidiaries are stated at or below their recoverable amount.

C LOANS TO GROUP UNDERTAKINGS AND INTERCOMPANY RECEIVABLES

The loans to Group undertakings balance included on the face of the Company statement of financial position of €11,243k (2015: €36,751k) represents an amount advanced by the Company to MyLotto24 Limited in 2015. The loan attracts interest at 2.65% per annum and is repayable in 2020. It has therefore been classified as a non-current loan to Group undertakings. The accrued interest payable on this loan balance amounting to €234k is included within current intercompany receivables.

D OTHER INVESTMENTS

On 16 December 2016, the Company acquired a 10% interest in The Free Postcode Lottery Limited (FPL) located in England, United Kingdom. Cash consideration of €1,198k was paid for 10% of the ordinary shares. FPL is involved in reinventing lotteries for the digital age and is a private entity that is not listed on any public exchange. Further details have been disclosed in note 15 to the consolidated financial statements.

	2016	2015
in €k		
Balance as at 1 January 2016	–	–
Additions	1,198	–
Impairment	–	–
Balance as at 31 December 2016	**1,198**	**–**

E TRADE AND OTHER RECEIVABLES

At 31 December 2016, trade and other receivables comprised principally of trade receivables of €1,894k (2015: €1,290k). All trade and other receivables are due in less than one year. As of the balance sheet date, there were no indications of impairment, which would have entailed the recognition of an impairment loss.

F OTHER LIABILITIES

Current	**2016**	2015
in €k		
Accrued liabilities	3,603	2,479
Accrued liabilities	**3,603**	**2,479**
Employee benefits	70	–
VAT	217	81
Payroll related taxes and social security payable	4	5
Tax and social security payable	**291**	**86**
Total other liabilities – current	**3,894**	**2,565**

All other liabilities – current included in the table above are due in less than one year.

Non-current	2016	2015
in €k		
Employee benefits	513	–
Other	–	75
Total other liabilities – non-current	**513**	**75**

Employee benefits

The Group operates a long-term incentive plan arrangement for certain employees. Further details have been disclosed in note 25 to the consolidated financial statements.

All other liabilities – non-current included in the table above are due after more than one year.

G TRADE PAYABLES

Current	2016	2015
in €k		
Trade Payables	895	4,188
Total	**895**	**4,188**

All trade payables are due within one year of balance date.

Further information available in note 30 to the consolidated financial statements.

H PROVISIONS

Current	Opening balance 01/01/2016	Utilisation/release	Additions	Closing balance 31/12/2016
in €k				
Provisions for litigation	667	(467)	–	200
Total	**667**	**(467)**	**–**	**200**

Provisions for litigation

Provisions for litigation amounting to €200k at 31 December 2016 (2015: €667k) represent management's best estimate of the probable eventual cash outflow that will result from resolution of ongoing legal cases at 31 December 2016. Individual provisions included in provisions for litigation relate to cases that have been in progress for a number of years. It is difficult to predict the timing of any cash outflow that might result from cases awarded against the Company. As such, provisions for litigation have been classified as current liabilities as there is no certainty that any judgement against the Group (leading to an outflow of cash) would take place in annual periods commencing after 2017. No further information has been disclosed on the grounds that this would be seriously prejudicial to the outcome of the disputes.

I SHARE CAPITAL AND RESERVES

Details of the Company's share capital and reserves are set out in note 22 to the consolidated financial statements.

J HEADCOUNT AND COSTS

During 2016, the Company had an average of 13 employees and 3 Directors (2015: 11 employees and 3 Directors).

Personnel expenses incurred during 2016 are included in the table below:

Current	**2016**	2015
in €k		
Wages and salaries	5,360	5,253
Pension contributions	130	–
Social security costs	460	246
Total employee benefit expense	**5,950**	**5,499**

K EVENTS AFTER THE REPORTING PERIOD

There were no material subsequent events that required adjustment or disclosure in the financial statements for the financial year ended 31 December 2016 to the date of issue of this report.

KEY CONSOLIDATED FIGURES OF ZEAL NETWORK

		2016	2015	2014	2013	2012
Customers						
Average billings per user per month	€	58.03	54.63	N/A	N/A	N/A
Monthly average users	No. k	375,4	372,2	N/A	N/A	N/A
Income statement	€k					
Billings		280,435	268,645	N/A	N/A	N/A
Revenue		112,935	88,962	140,702[2]	129,933[2]	142,731[2]
EBIT		37,956	42,859	19,156[2]	19,459[2]	56,464[2]
EBT		36,511	19,604	12,477[2]	18,831[2]	56,782[2]
Profit for the year		25,951	1,346	5,317	10,187	40,891
Balance sheet	€k					
Cash, cash equivalents and securities (incl. pledged cash, cash equivalents and securities)		94,983	94,777	92,585	85,822	78,303
Total non-current assets		4,677	8,198	34,109	44,593	48,881
ASSETS		136,016	140,354	155,406	213,581	191,217
Current liabilities		36,259	43,711	37,471	36,821	39,414
Non-current liabilities		2,199	1,474	682	1,204	1,427
Equity		97,558	95,169	117,253	175,556	150,375
EQUITY AND LIABILITIES		136,016	140,354	155,406	213,581	191,217
Cash flow	€k					
Cash flow from operating activities		33,741	27,285	23,838	16,751	22,546
Cash flow from investing activities		(3,258)	(4,287)	(8,938)	(8,038)	(8,098)
Cash flow from financing activities		(23,478)	(23,478)	(62,888)	15,337	0
Personnel						
Number of employees	No.	255	257	274	140	104
Personnel expenses	€k	(26,705)	(25,434)	(20,701)[2]	11,090[2]	10,760[2]
Expenses per employee	€k	105	103	76[2]	79[2]	103[2]
Share (from 2004)						
Average number of shares (undiluted)	No.	8,385,088	8,385,088	8,385,088	8,268,421	7,985,088
Earnings per share (undiluted)	€	3.09	0.16	0.63[2]	1.30[2]	4.99[2]
Operating cash flow per share (undiluted)	€	4.02	3.25	2.84	2.03	2.82
Ratios	%					
EBIT margin		33.6	48.2	13.6[2]	15.0[2]	39.6[2]
Net operating margin		23.0	1.5	3.8[2]	7.8[2]	28.6[2]
Return-on-equity (ROE)		26.6	1.4	4.5[2]	5.8	27.2

[1] 2002–2003: unaudited [2] from continuing operations

	2011	2010	2009	2008	2007	2006	2005	2004	2003[1]
	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	N/A	N/A	N/A	335,947	346,776	264,235	204,696	154,094	104,812
	139,316[2]	101,882[2]	89,551	45,838	44,974	34,575	26,119	19,504	14,085
	51,905[2]	32,681[2]	23,052	8,897	8,949	7,244	6,048	3,207	1,000
	52,770[2]	33,167[2]	25,076	10,720	11,192	8,365	6,490	3,324	1,070
	36,339	19,551	17,482	6,606	6,272	7,445	3,318	1,575	2,994
	64,123	43,957	69,361	21,261	66,121	60,764	57,174	13,202	8,251
	36,215	29,444	18,296	12,304	7,213	5,740	7,296	2,602	3,845
	173,043	130,013	108,123	93,151	91,739	82,794	72,135	18,896	16,036
	42,848	36,911	42,971	35,623	35,774	22,128	18,854	10,955	9,872
	904	181	752	2,607	335	14	96	124	99
	129,291	92,921	64,399	54,922	55,630	60,652	53,185	7,817	6,065
	173,043	130,013	108,123	93,151	91,739	82,794	72,135	18,896	16,036
	44,323	14,081	30,217	9,651	17,886	8,360	10,308	5,375	4,570
	(24,157)	-48,446	25,579	(47,040)	(1,200)	(4,769)	(6,371)	(600)	(506)
	0	8,950	(7,723)	(7,386)	(11,335)	–	40,035	175	(30)
	128	121	132	185	154	144	114	95	72
	12,026[2]	10,110[2]	12,524	12,667	10,324	8,277	6,990	5,522	4,285
	94[2]	84[2]	72	69	67	58	61	58	60
	7,985,088	7,715,614	7,730,961	8,032,265	8,524,199	8,872,319	7,191,100	6,451,928	N/A
	4.80[2]	2.85[2]	2.26	0.82	0.74	0.84	0.46	0.24	N/A
	5.55	1.82	3.91	1.20	2.10	0.94	1.43	0.83	N/A
	37.3[2]	32.1[2]	25.7	19.4	19.9	21.0	23.2	16.4	7.1
	26.1[2]	19.2[2]	19.5	14.4	13.9	21.5	12.7	8.1	21.3
	28.1	21.0	27.1	12.0	11.3	12.3	6.2	20.1	49.4

FINANCIAL CALENDAR

12 May 2017	Publication of Q.1 Report
30 June 2017	Annual General Meeting
11 August 2017	Publication of Q.2 Report
10 November 2017	Publication of Q.3 Report

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