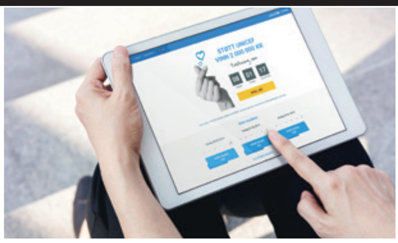
ANNUAL REPORT 2018

CREATING A BETTER WORLD OF LOTTERY



MORE DIGITAL

MORE EXCITING

MORE SOCIALLY VALUABLE

ZEAL

ZEAL

ZEAL is an innovative, international digital lottery group.

With 20 years' experience in the lottery sector, our vision is to create a better world of lottery; one that is more digital, more exciting and more socially valuable.

Founded in 1999, we are a house of lottery brands currently operating across: lottery betting and instant win games (Tipp24 and myLotto24), primary and social lottery operation (Lottovate), and lottery venture capital (ZEAL Ventures).

We have more than 3.9 million customers globally across the Group. We are headquartered in London and our shares are listed on the Prime Standard of the Frankfurt Stock Exchange. Since our incorporation, we have generated stakes of more than €3bn, and paid out more than €1.5bn in prizes.

CONTENTS

THE ZEAL GROUP[1]

LOTTERY BETTING

Currently, ZEAL's core business is 'Lottery Betting'. This incorporates 'secondary lottery' – in which customers can bet on the outcome of primary lotteries and win jackpot-matching amounts – and instant win games, in both Germany (through the Tipp24 brand) and internationally (through the myLotto24 brand).

ZEAL's Lottery Betting activities are undertaken by and take place within myLotto24 Limited and its subsidiaries (together the 'myLotto24 Sub-Group'), which act as a bookmaker. Customers can bet on the outcome of primary lotteries and win jackpot-matching amounts. The jackpot risk is mitigated by a sophisticated hedging structure.

Following the announcement of the takeover of Lotto24 AG ('Lotto24') on 19 November 2018, ZEAL intends to acquire from Fondation enfance sans frontiers (the 'Swiss Foundation') the shares it holds in the myLotto24 Limited and Tipp24 Services Limited subsidiaries (aligning the companies' legal ownership and control) in 2019 and transform its core German lottery betting business into locally-licensed online brokerage.

LOTTOVATE

Lottovate operates primary lotteries and develops bespoke lottery platforms that help charities unlock additional sources of funding.

Lottovate currently operates a lottery in Norway (the UNICEF-Lotteriet), holds a charity lottery licence in The Netherlands, and, in 2018, was recently awarded a lottery licence in the Czech Republic.

In Spain, Lottovate's work with ONCE has helped them significantly increase online billings year-on-year, in turn helping them continue supporting visually-impaired people.

ZEAL VENTURES

ZEAL Ventures was established to unearth the businesses and innovations which will define the future of lottery. ZEAL Ventures supports start-ups which are developing disruptive new lottery business models and/or products. It provides these businesses with growth capital and intellectual capital from the wider ZEAL Group.

In return, it expects to learn from, acquire and/or partner with these companies, and generate a positive financial return for the Group.

ZEAL Ventures currently holds stakes in: Omaze (2.5%) – an experience-focused online fundraising platform, Pick My Postcode (10%; formerly Free Postcode Lottery) – an advertising-funded, free-to-play lottery-style game, Wshful (5%) – a lottery syndicate business, and The Dream Makers (10%) – an early-stage travel-deal subscription business which gives customers the chance to win amazing holiday experiences.

[1] ZEAL Group or the Group is comprised of ZEAL Network SE and its subsidiaries.

“ZEAL has created a culture of innovation that is unrivalled in the industry. Berenberg, December 2018

2018 AT A GLANCE

€296.3m
BILLINGS
(2017: €280.5M) UP 6%

€254.5m
STAKES
(2017: €241.3M) UP 5%

€154.8m
REVENUE
(2017: €134.3M) UP 15%

€159.7m
TOTAL OPERATING PERFORMANCE
(2017: €141.2M) UP 13%

€46.6m
ADJUSTED EBIT
(2017: €25.2M) UP 85%

€38.3m
STATUTORY EBIT
(2017: €25.2M) UP 52%

€101.9m
NET CASH
(2017: €69.5M) UP 47%

€3.18
EARNINGS PER SHARE
(2017[1]: €2.04) UP 56%

€57.57
AVERAGE BILLINGS PER USER
(2017: €57.58) DOWN 0.02%

403.5k
MONTHLY ACTIVE USERS
(2017: 379.8K) UP 6%

€158m+
CUMULATIVE DIVIDENDS SINCE 2007[2]

3.9m+
TOTAL NO. OF CUSTOMERS ACROSS THE GROUP

[1] *In line with the requirements of IFRS, the 2017 EPS has been restated from €2.05 to €2.04 as a result of the purchase of treasury shares by the Group in July 2018. Further details of the purchase can be found in note 19.*

[2] *We monitor cumulative dividends to provide an indication of the shareholder value generated since 2007. 2007 was the first year a dividend payment was made to shareholders.*

The definitions of the financial measurements disclosed above can be found in the Key Performance Indicators section on page 23 of the Annual Report.

OTHER HIGHLIGHTS

- Made takeover offer for Lotto24 – Germany's largest digital lottery broker
- First foreign operator to be awarded a lottery licence in the Czech Republic
- Completed internal programme which will deliver recurring savings of c.€4m per annum from 2019.

ZEAL IS STRONG, GROWING AND PROFITABLE. WE'RE REDEFINING LOTTERY FOR THE DIGITAL AGE.

DEAR SHAREHOLDERS,

2018 was a milestone year for the ZEAL Group. We delivered strong financial results. We acquired a record number of new customers. We laid the groundwork for continued international diversification. We made ourselves more efficient.

We capped off the year by, on 19 November 2018 announcing our intention to reunite with Lotto24 – in doing so, we will transform our German core business model to online brokerage, and create a sustainable path to growth.

DELIVERING VERY STRONG RESULTS

In 2018, we delivered a strong set of results. We delivered statutory EBIT of €38.3m. This has been adjusted from €46.6m to account for the one-off costs associated with the Lotto24 transaction, the closure of Ventura24 S.L.U.'s ('Ventura24') consumer facing business and restructuring costs.

- Billings of €296.3m – up nearly 6% (2017: €280.5m)
- Stakes of €254.5m – up 5% (2017: €241.3m)
- Revenue of €154.8m – up 15% (2017: €134.3m)
- Total Operating Profit (TOP[1]) of €159.7m – up 13% (2017: €141.2m)
- Adjusted EBIT €46.6m – up 85% (2017: €25.2m)
- Statutory EBIT of €38.3m – up 52% (2017: €25.2m)
- Net cash[2] of €101.9m – up 47% (2017: €69.5m)
- EPS of €3.18 – up 56% (2017: €2.04m)
- Average Billings Per User of €57.57 – maintaining performance (2017: €57.58)
- Average Monthly Active Users of 403.5k – up 6% (2017: 379.8k)
- Dividend – €1.00 per share (2017: €1.00 per share)

RECORD NEW CUSTOMER ACQUISITION

We acquired a record number of new registered customers for the Group and our partners while significantly reducing our acquisition costs. The 614,000 new registered customers represent a 49% increase on the previous year (2017: 411,000), while the cost per lead in our lottery betting segment reduced – by 42% in 2018.

MAKING OURSELVES MORE EFFICIENT

We continued to make ourselves more efficient. After implementing our third hedging structure in January 2018, which improved the capital efficiency of our hedging operations by 30%, we completed an additional internal cost saving initiative that will deliver recurring savings of approximately €4m per annum from 2019.

Additionally, we took steps to further evolve the way we manage our internal investments, to bring us more in line with a venture-capital funding approach. We treat our new investments in internally-developed products and international markets, more like early stage start-ups. We apply a traction-based funding model in which seed-funding is awarded based on an agreed business plan. More funds may be made available once traction is seen. We believe this approach fosters greater innovation, encourages more of a test and learn approach, and reduces financial risk.

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

[2] This measure is defined on page 23

LAYING THE GROUNDWORK FOR CONTINUED INTERNATIONAL DIVERSIFICATION

In line with our evolved investment approach, we continued to lay the groundwork for our international diversification by making early-stage investments into new companies and developing new products in new countries, and focusing on acquiring additional licences.

In 2018, we became the first foreign operator to be awarded a lottery licence in the Czech Republic. Following a period of testing conducted in the second half of 2018, we are now preparing to launch our new lottery in 2019 and move into live market testing.

The first full year of results for the UK secondary lottery betting start-up were positive. Through 2018, active customers increased month-on-month, acquisition costs decreased, and average billings per user increased. We began to scale-test in the second half of the year and delivered billings of more than €1m.

In Norway, where we launched the UNICEF-Lotteriet in November 2017 as one of the country's first new charity lottery licensees, we have been working closely with our partner – UNICEF Norway – on live market testing. Initial signs have been positive and we continue to test. In February 2019, a lucky nurse from the Oslo area became Norway's largest charity lottery jackpot winner. After purchasing two tickets with identical winning numbers, she won NOK 4m (€400k).

We also made our third and fourth external investments. We acquired a 5% stake in Cloud Canyon Limited ('Wshful') – a UK-based company that enables customers to participate in syndicates for international lotteries. We also acquired a 10% stake in De Integro Limited ('The Dream Makers') – a travel-deal subscription company which gives customers the chance to win amazing holiday experiences. Further details of these investments can be found on page 13.

In June 2018 we launched Raffld – the experience lottery – in the Netherlands. Over the next eight months, we conducted substantial live market testing; gathering detailed in-play data and customer feedback. In February 2019, we took the decision to pause Raffld in order to reduce costs while we conduct further detailed data analysis and decide on the best way forward for the product.

In Spain, following an adverse Supreme Court ruling in October 2018 after a lengthy legal case, we took steps to close our consumer-facing business, which operated under the Ventura24 brand. We have worked closely with the regulator to ensure an orderly shut-down of the business. As a result of our collaborative approach, we were able to continue selling tickets for the all important El Gordo Christmas lottery, thus honouring our commitment to loyal customers and, at the same time, maximising value all the way through to the end of the year. The business was formally closed in December 2018 and management is working with customers to return any outstanding funds. We continue to explore business opportunities in Spain.

> Our future growth prospects, reduced risk, and increased efficiency make ZEAL a highly attractive long-term investment proposition.
>
> Jonas Mattsson, CFO, ZEAL

2018 was a milestone year. We have created a sustainable growth path and set ZEAL up for an exciting future.

Helmut Becker, CEO, ZEAL

REUNITING WITH LOTTO24

On 19 November 2018, we announced our intention to reunite with Lotto24 – Germany's largest private digital lottery broker – through a public voluntary all-share takeover offer (the 'transaction'). Lotto24 was previously spun-off from the Group in 2012.

With this reunion, we will create a digital lottery group with approximately 6 million combined customers globally, current combined billings of approximately €500m.

With the regulatory headwinds getting stronger the long term viability of secondary lottery betting is uncertain in Germany (see page 8). With this transaction, we will substantially de-risk our business model by transforming our core German lottery betting business into a locally licensed online brokerage model, after acquiring from the Swiss Foundation the shares it holds in the myLotto24 Limited ('myLotto24') and Tipp24 Services Limited ('Tipp24') subsidiaries (aligning the companies' legal ownership and control).

Lotto24 has been growing at 27% per year, published preliminary results for 2018 which showed further significant growth exceeding its expectations, and recently announced that it has further cemented its position with increased market share.

We believe this transaction therefore offers a strong path to sustainable growth for ZEAL and creates significant value – for shareholders, customers, and the Federal States of Germany and their lottery beneficiaries.

On 18 January 2019, ZEAL shareholders approved the share capital increase of up to €15.1m required to fund the offer for Lotto24, and we subsequently published our offer on 31 January 2019. We expect to complete the transaction in Q2 2019.

More information can be found in 'The Future' section on page 6.

The actions we have taken in 2018, in improving our efficiency, driving customer acquisition, and creating a path for sustainable growth in Germany and beyond, have set ZEAL up for an exciting future.

The Executive Board

Dr. Helmut Becker	**Jonas Mattsson**
CEO	CFO

THE FUTURE

On 19 November 2018, ZEAL announced its plan to reunite with Lotto24 – Germany's largest private digital lottery broker – through a public, voluntary, all-share takeover offer.

The acquisition of Lotto24 is an all-share transaction. Based on the three-month volume-weighted average price of both companies' shares on 18 November 2018, the value of this all-share consideration would be approximately EUR 325m.

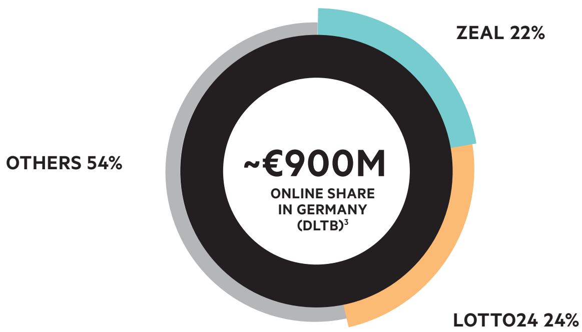
The transaction will create a digital lottery group with 6 million combined customers globally, current combined billings of approximately €500m[1], and a diverse international footprint. The combined Group will build on Lotto24's existing position to accelerate growth of online brokerage in the €8.7bn German lottery market.[2]

ZEAL will substantially de-risk its business model by transforming its core German lottery betting business into a locally licensed online brokerage model, after acquiring from the Swiss Foundation the shares it holds in the myLotto24 and Tipp24 subsidiaries (aligning the companies' legal ownership and control).

ZEAL will also continue to pursue its international growth ambitions, building on its existing, diverse international portfolio and global development pipeline, with the aim of creating long-term growth and sustained shareholder and customer value.

Against the background of a regulatory environment that has not liberalised in the way that the Group hoped, we believe reuniting with Lotto24 and transforming ZEAL's core business to online brokerage offers the best path to sustainable future growth and significant value creation – for shareholders, customers, and the Federal States of Germany and their lottery beneficiaries.

NO. 1 IN GERMANY



46%
ONLINE MARKET SHARE[1]

6.0m
CUSTOMERS

€500m
BILLINGS (C.)[1]

[1] Based on 2017 billings of the ZEAL Group and of Lotto24.

[2] From German Gambling Market Monitor 2018 from Goldmedia GmbH Strategy Consulting

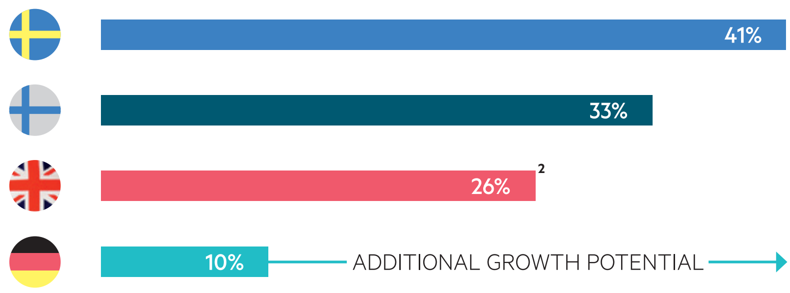
[3] Calculated on the 2017 DLTB online share of the German lottery market

LOTS OF POTENTIAL

In Germany, online penetration in the lottery market is still very low – around 10%. In the UK it is 26%, in Finland it is 33%, and in Sweden it is 41%. This highlights the outstanding opportunity that exists.

The scale, expertise and technological capability of our combined group, coupled with Lotto24's existing market position in Germany and ZEAL's diverse international portfolio, will put us in an excellent position to accelerate online growth in both the €8.7bn German lottery market and €270bn global lottery market.

TREMENDOUS UNTAPPED GROWTH POTENTIAL[1, 2]



[1] *Online share in selected European countries, based on H2 Gambling Capital data (excl. ODDSET), Gambling Gross Turnover or Gross Wins (stakes less prizes paid out but incl. bonuses) where available (2017A)*

[2] *Based on 2017 estimates*

A leading, innovative, international digital lottery group with 20 years' experience in the lottery sector. A house of lottery brands and start-ups currently operating across international secondary lottery betting, primary and social lottery operation and lottery venture capital. More than 3.9 million customers. Shares are listed on the Frankfurt Stock Exchange. In the context of the reunification with Lotto24, ZEAL intends to transform its core German lottery betting business into locally-licensed online brokerage.

Germany's largest private digital online lottery broker offers Deutsche Lotto-und-Totoblock ('DLTB') products & has brokerage agreements with 16 German state lotteries. 24% market share in Germany's online lottery market. Licensed to broker online lotteries until June 2021. Headquartered in Hamburg. Shares are listed on the Frankfurt Stock Exchange. Spun-off from ZEAL in 2012 to take advantage of the newly liberalised online gambling regime in Germany. Approximately 2.2 million customers. Billings growth of 27% per year.

WELL POSITIONED FOR GROWTH

1

OPERATOR AND SOCIAL LOTTERY OPPORTUNITIES

- Strong technology & marketing expertise
- UNICEF-lotteriet (Norway), ONCE (Spain)
- Additional operator licences held in: Czech Republic, Netherlands
- Attractive business model with recurring, stable cash flows

2

INTERNATIONAL, LOCALLY-LICENSED SECONDARY LOTTERY

- Exposure to attractive regulated markets, including: UK, Ireland
- Prospective markets in Europe, Africa and Latin America
- Builds on customer experience and trust; myLotto24 has paid out >€1bn in winnings

3

STARTUP DISRUPTION

- Extensive investment experience with new lottery ventures including: Omaze, Pick My Postcode, Wshful, The Dream Makers
- Strong reputation and solid balance sheet
- Regulatory, product and marketing expertise

THE FUTURE OF LOTTERY BETTING IN GERMANY

Lotto24 operates a locally-licensed lottery brokerage business in Germany while a substantial part of ZEAL's business focuses on a lottery betting model in Germany, for which no local legal framework exists.

With the regulatory headwinds getting stronger and no sign of a local-licensing model, we do not believe there is a long-term sustainable future for secondary lottery betting in Germany. So we have proactively taken control of our own destiny.

During 2018, the Executive Board carefully reviewed the Group's long-term strategic options. While the transformation of the myLotto24 Sub-Group's secondary lottery betting business into a licensed private online brokerage business will initially cause significant annual run-rate net revenue dis-synergies of around €107m, this is expected to be compensated for over time through the accelerated growth of the enlarged group. In particular:

- Improved growth potential from access to additional marketing channels which are only available to locally-licensed operators and brokers.
- Significant reduction in risk from an operational, tax, and regulatory perspective.

VALUE CREATION THROUGH SYNERGIES

The combination with Lotto24 is also expected to deliver annual run-rate cost synergies of approximately €57m through greater platform efficiencies and significant reductions in other operational costs.

This is equivalent to approximately 41% of the combined Group's operating expenses (including personnel expenses) from continuing operations of €138m, calculated based on the consolidated audited accounts for each of ZEAL and Lotto24 for the financial year ended 31 December 2017.

Approximately 60% of the cost synergies are generated through savings in direct costs of operations. This includes all costs covering the bookmaking risks for Tipp24.com (hedging costs) and the reduction of non-deductible VAT within the myLotto24 Sub-Group. The other 40% of cost synergies will be generated by a reduction of personnel and other operating expenses.

The Executive Board expects that the cost synergy realisation will take place progressively, with approximately 80% of the total cost synergies achieved by the end of year one, rising to 100% achieved by the end of year two.

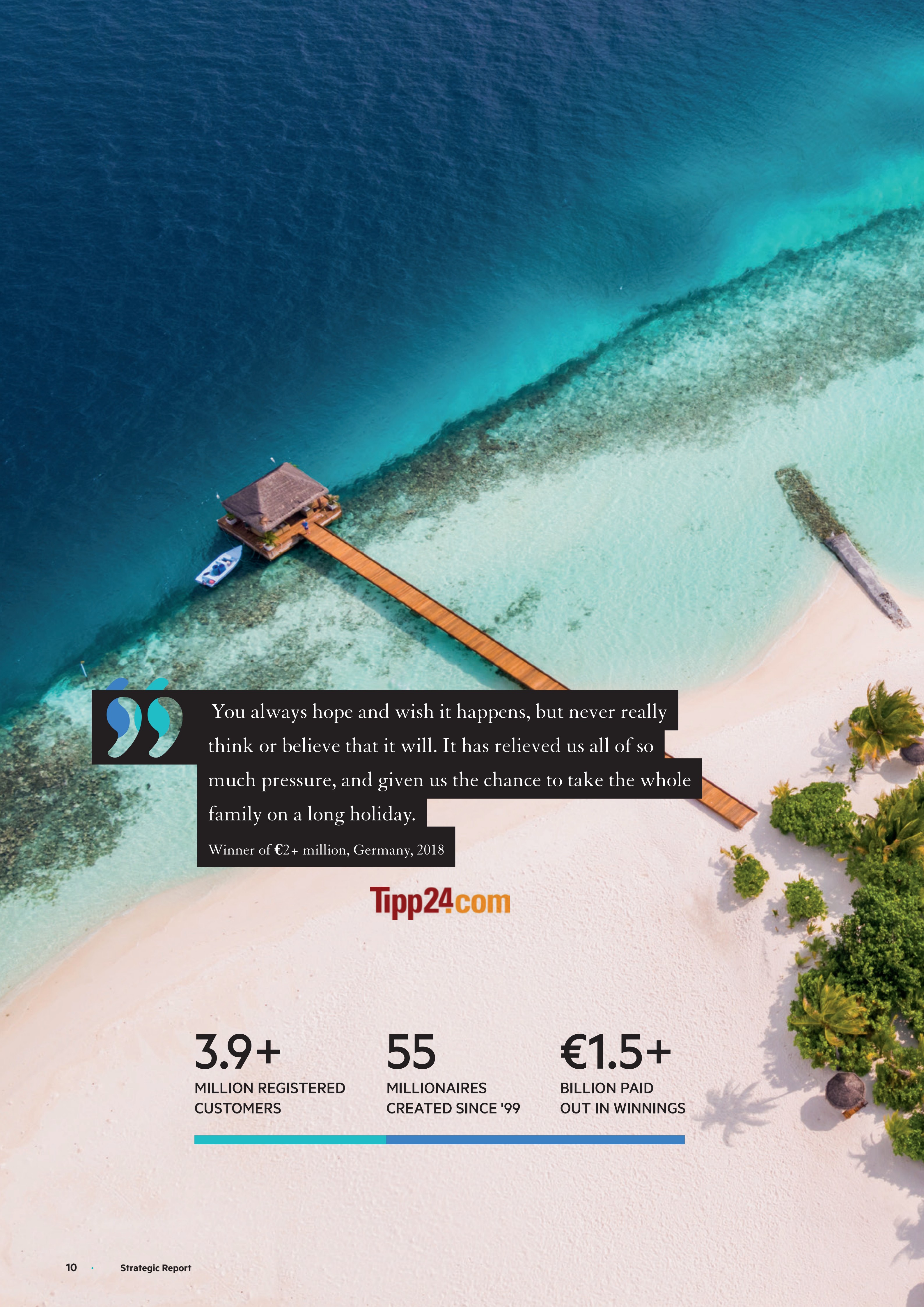
HIGHLY ATTRACTIVE INVESTMENT

ZEAL + LOTTO 24

Bringing together two iconic German lottery brands	Currently 6 million combined customers and about €500m of combined billings
Unique position to accelerate growth in online brokerage of lottery products in Germany	Accelerated growth driven by shift to online, enabled by multi-channel marketing expertise combined with best-in-class technology
Substantial de-risking and significant benefits for shareholders	Value appreciation through switch to lottery brokerage model and a clear positive regulatory and tax framework under a national licence, despite initial revenue dis-synergies
Well positioned for international growth opportunities	Powered by the German online lottery brokerage business and extensive expertise, the combined group can pursue international growth opportunities to remain at the forefront of digital lottery
Smooth integration process	Smooth integration due to the companies' shared history and culture, proven management teams and similar operational infrastructure

NEXT STEPS

- On 18 January 2019, ZEAL shareholders approved the share capital increase required to fund the offer for Lotto24.
- Following this, a formal takeover offer was made to Lotto24 shareholders on 31 January 2019. ZEAL has already secured irrevocable commitments to accept the offer from major shareholders representing 65% of Lotto24 shares.
- Permission was granted on 11 February 2019 for the brokerage of lottery tickets via the Tipp24 domains, on behalf of the German State lottery companies.
- We expect to complete the transaction in Q2 2019.
- Further information about the transaction can be found at: **www.zeal-offer.com**



> You always hope and wish it happens, but never really think or believe that it will. It has relieved us all of so much pressure, and given us the chance to take the whole family on a long holiday.

Winner of €2+ million, Germany, 2018

Tipp24.com

3.9+
MILLION REGISTERED CUSTOMERS

55
MILLIONAIRES CREATED SINCE '99

€1.5+
BILLION PAID OUT IN WINNINGS

CREATING DREAMS

ZEAL has been creating and fulfilling dreams since 1999. Whether it's winning enough money to buy a private island, pay off a mortgage or put a child through university, or winning a once-in-a-lifetime experience, we create products to match our customers' dreams. Since 1999, we have paid out more than €1.5bn in total winnings, including 55 winning tickets of €1m or more.

> Zeal's partnership, expertise, insight and support has been an invaluable resource to Omaze as we move toward achieving our goal of becoming the first for-profit company to raise one billion dollars for charity.
>
> Matt Pohlson, Co-founder and CEO, Omaze

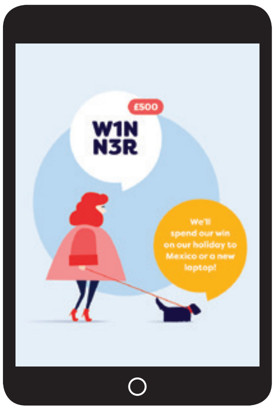
INVESTING IN THE FUTURE OF LOTTERY

ZEAL Ventures was established to unearth the businesses and innovations which will define the future of lottery. We invest in and support start-ups that are developing disruptive new lottery business models and/or products. We are constantly hunting for the sector's game-changers and our current portfolio contains a number of exciting and high-potential companies.

OMAZE

Omaze is a fast-growing, Los Angeles based start-up, which is transforming charity giving. When customers donate, they get the opportunity to win 'money can't buy' celebrity experiences and other prizes. For instance: dinner with Matt Damon, tea with Hilary Clinton, or a Ferrari supercar. We acquired a 2.5% stake in the company in May 2017 and Omaze recently reached the milestone of more than $100m raised for charity.

Omaze



PICK MY POSTCODE

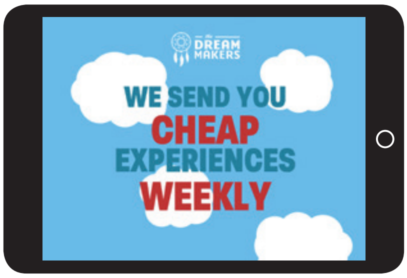
Founded in 2011, Pick My Postcode has grown to become the UK's largest free-to-play lottery through its advertising-funded model. We acquired a 10% stake in the business in December 2016.

PICK MY POST CODE

WSHFUL

In July 2018, we invested €115k to acquire a 5% stake in Wshful. Founded in 2017 and based in London, Wshful is a subscription-based lottery syndicate business that gives customers access to the world's largest lotteries, and increases their odds of winning by enabling them to play in syndicates.

wshful



THE DREAM MAKERS

In December 2018, the Group invested €132k to acquire a 10% interest in The Dream Makers. Based in the UK, The Dream Makers provides customers with access to travel deals for a monthly subscription and gives its subscribers the opportunity to win amazing holiday experiences. Our investment will enable The Dream Makers to scale-test.

the DREAM MAKERS

CREATING A BETTER WORLD

Our vision is to create a better world of lottery. One that is more digital, more exciting and more socially valuable. We have embedded strong business practices and customer-protection measures across the Group, and we give back to society. Since 1999, we have raised more than €500m for good causes and Federal States in Germany. We also operate charity lottery products such as the UNICEF-Lotteriet in Norway, which directly raises funds to enable their work with disadvantaged children around the world. And we directly support a number of charities internationally, including SportsAid – where we provide funding to talented athletes in the early part of their careers – and the Marie Keating Foundation in Ireland. Through the myLotto24 Good Neighbourhood Fund, which is administered by the London Community Foundation, we have supported around 20 grassroots charities whose work ranges from support for mental ill-health to the provision of free coding qualifications for disadvantaged groups.

232
ATHLETES SUPPORTED SINCE 2014

32
CHARITIES SUPPORTED SINCE 2014

>€500m
RAISED FOR GERMAN GOOD CAUSES AND THE STATE SINCE 1999

> myLotto24's funding made it possible for me to buy my first pair of high-speed skating boots – worn for countless hours as I progressed to Team GB and World Championship level. These myLotto24 boots get to go very fast on a lot of International ice!
>
> Peter Riches, Team GB Athlete

REDEFINING LOTTERY FOR THE DIGITAL AGE

We believe the global lottery market offers untapped potential and is still waiting for its Airbnb or Netflix moment. Globally, the market is worth €270 billion. Yet, online penetration is still incredibly low. In Germany it is around 10%. Even in more advanced mature markets like the UK, it is still only 26%. Lotteries still tend to be played the way they always have been. We believe lottery can be better. That's why we're continually innovating, trying new things, and rigorously testing what works and what doesn't. This approach, combined with our scale and technological capability, puts us in an excellent position to accelerate growth in the online lottery market. In doing so, we believe we will create significant value for customers, good causes, and our shareholders.

> Our worries are now replaced with dreams and plans, that are now within reach. It's absolutely amazing!
>
> Unicef-Lotteriet jackpot winner, Oslo, 2019


unicef LOTTERIET
SPILL
STØTT UNICEF
VINN 2 000 000 KR
Trekning om
08
dager
01
timer
17
minutter
SPILL NÅ
Ved å delta i UNICEF-lotteriet støtter du UNICEF. Lotteriet sponses i sin helhet av driftsselskapet Lottovate.
Siste resultater
fredag 08.02.2019
2 5 4 1 1
Antall vinnere:
130
fredag 01.02.2019
9 8 2 7 4
Antall vinnere:
195
fredag 25.01.2019
5 1 2 3 6
Antall vinnere:
208
Vis tidligere resultater

BUSINESS REVIEW AND STRATEGY

BUSINESS MODEL AND STRUCTURE

The Group's operating segments are Lottery Betting, Lottovate and ZEAL Ventures. This is consistent with the internal reporting provided to the Chief Operating Decision Maker (CODM), being the Executive Board of Directors. We have described the composition of the segments in more detail below:

LOTTERY BETTING SEGMENT

The Lottery Betting segment comprises our secondary lottery betting business (secondary lottery), and Instant Win Games. Its cost base includes direct costs and an allocation of the shared cost base.

We monitor the performance of the Lottery Betting segment based on 'normalised' revenue and 'normalised' adjusted EBIT (statutory revenue and adjusted EBIT amended for statistically expected prize pay-outs). The disclosures included in the operating segment note 3 (page 96–98) are consistent with our internal reporting. 'Normalised' performance is given due prominence in the disclosure as this is the way we analyse our business internally. 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 reconciliation.

LOTTOVATE SEGMENT

The Lottovate segment comprises the elements of our business which are focused on the reinvention of the digital lottery experience, operating primary lotteries and helping charities, foundations and communities to unlock new sources of funding through bespoke lottery platforms.

These include our recently closed lottery brokerage business in Spain (Ventura24) and our international services business for lottery operators including online operation of the lottery games for charitable organisations, such as ONCE. In addition, the international business offers digital services to business partners (such as UNICEF Norway) and state lotteries as well as operating its own licensed lotteries through Lottovate. Finally, our Lotto Network brand has helped professional sports clubs and other organisations to raise funds through lottery operations.

The Lottovate segment's results comprise revenue and costs attributable to the operating activities of Lottovate together with an allocation of the shared cost base.

We monitor the performance of the Lottovate segment based on actual results.

There have been a number of changes to the Lottovate segment during the year; firstly, the decision was taken to close our Lotto Network brand. This was due to the brand no longer performing in line with expectation. Secondly, in October 2018, the Spanish Supreme Court determined that the Ventura24 consumer-facing broker (B2C) business does require a licence granted by the Lottery operator (SELAE) to manage the online purchase of lottery products. Such a licence has not been granted in the past and was not considered likely to be granted in the future. As a result, the Gambling Regulator (the DGOJ) instructed Ventura24 to cease operating its B2C business and Ventura24's B2C business was closed in December 2018.

ZEAL VENTURES

The costs attributable to the operating activities of ZEAL Ventures are not separately disclosed. These costs do not meet the quantitative threshold requirements for separately identifiable segment reporting and are instead proportionally allocated to the Lottery Betting and Lottovate segments.

OUR STRATEGY

THE 2018 STRATEGY

During 2018, prior to making the offer to acquire the entire issued share capital of Lotto24, ZEAL focused on two main strategic objectives:

- The first strategic objective was to continue to grow and develop the Lottery Betting businesses of secondary lottery and Instant Win Games, by acquiring new customers and increasing the product portfolio. Internationalisation of the successful existing product offering was viewed as the key for future growth. The business activities are directed and managed by the Directors of the myLotto24 Sub-Group companies (being myLotto24 Limited and its subsidiary companies).
- The second strategic objective was the enhancement of our Lottovate business operating under the brands Lottovate, Ventura24 and Lotto Network. 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.

THE FUTURE STRATEGY

As noted on page 6 the proposed acquisition of Lotto24 will result in the Group re-entering the German lottery brokerage market and transitioning the customers of its independently managed UK associated company, Tipp24, to a locally-licensed brokerage model. ZEAL's strategic objectives, following the successful acquisition of Lotto24 are to:

- Focus on locally-licensed businesses and discontinue the 'Lottery Betting' in Germany. ZEAL intends to transform its German Secondary Lottery business, operated by Tipp24 Services Limited, into a locally licensed online brokerage model after reacquiring the outstanding shares of myLotto24 Limited and Tipp24 Services Limited.
- Grow and develop the locally-licensed businesses in both Lottery Betting and Primary Lottery, by acquiring new customers through marketing activities.
- Reduce ZEAL's dependency on the German market by expanding internationally into other lottery markets.
- Develop innovative products and businesses that have the potential to expand the customer's choice and experience in the lottery sector, grow participation, and enhance the returns to good causes and the Federal States of Germany.
- Expand the 'Lottovate' and 'ZEAL Ventures' segments through investments in new partnerships and geographical expansion.

STRATEGY IMPLEMENTATION

- The Lottery Betting segment Total Operating Performance ('TOP') grew by 6% in 2018. Instant Win Games continued to grow and 2018 was the first full year that the segment offered secondary lottery on US products (Mega Millions and Powerball). These contributed to a significant growth in billings in the year. 2018 was the first full year of operations in the UK, which saw billings exceeding €1m for the first time. Monthly Active Users increased from 380k to 403k and there was a 185k increase in new customers.
- 2018 was a year of change for the Lottovate segment. The decision was taken in June 2018 to close the Lotto Network Brand, as the brand was not performing in line with management expectations. Also, following the ruling from the DGOJ, the B2C business of Ventura24 was closed in December 2018. On a more positive note, Ventura24's charity lottery partnership with ONCE generated significant growth and achieved positive EBIT for the Group in 2018. Lottovate saw the first full operational year of its online charity lottery in partnership with UNICEF Norway, and was awarded a lottery licence in the Czech Republic.

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 any changes. As a consequence of this close monitoring, we are able to adapt quickly and are well placed to capitalise on any opportunities that may arise.

VARYING LEGAL MARKET SITUATIONS

The development of the legal environment for gambling and betting activities 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 in 2008 and revised in 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. Currently, the German states are debating if and how to change the regulation. The Group continues to monitor the regulatory developments.
- The Group is subject to legal cases concerning its ability to provide secondary lottery products in Germany and it has taken legal advice as to the manner in which it should respond and the likelihood of success of such actions. Where the Board is able to quantify reliably any material outflow of funds, this has been recorded as a provision in note 18 to the Consolidated Financial Statements. The recording of legal provisions and disclosures can be complex by their nature and often management can only estimate the expected cash outflow when a formal court ruling has been made. The Board continues to assess the evolving regulatory environment and the legal cases and challenges in Germany, which provides uncertainty over the long term ability of the Group

to provide secondary lottery products in Germany. The proposed acquisition of Lotto24 is part of the Group's long term strategy to mitigate this risk and subsequent re-entry into the German lottery brokerage market.

- In October 2018, in the context of a legal dispute between the Spanish Gambling Commission (DGOJ) and Ventura24, on Ventura24's right to operate a consumer-facing broker business (B2C) in Spain, the Spanish Supreme Court determined that the Ventura24 business does require a licence granted by the Lottery operator (SELAE) to manage the online purchase of lottery products. Such a licence has not been granted in the past and is unlikely to be granted in the future. As a result, the DGOJ instructed Ventura24 to cease operating its B2C business and Ventura24 is now in the process of doing this under a structured process. Nevertheless, the DGOJ does still have the right to start sanction proceedings against Ventura24 although management is taking steps to minimise the risk of this outcome wherever possible. The impact of closure of Ventura24's B2C business, in itself, does not have a material financial impact on the Group's results or hedging strategy.
- At the time of this report, there have been no other significant regulatory or legislative developments in markets into which we have entered or plan to enter in the future.

MARKET MATTERS

JACKPOTS

ZEAL regularly experiences a substantial 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

According to an industry report published by H2 Gambling Capital Data and based on 'gross gambling turnover' or 'gross gambling win', where available, the online share of the total DLTB market was 10% in 2017. ZEAL considers this share to be low, compared to select other European markets. In the UK it is 26%, in Finland it is 33%, and in Sweden it is 41%. This highlights the outstanding opportunity that exists.

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 for our business.

NORMALISATION OF RESULTS

NORMALISED RESULTS

In the lotteries on whose results ZEAL Group relies, there are underlying statistical average pay-out ratios for ongoing lottery draws. For our main products, this is approximately 50%. The expected pay-out ratio for secondary lottery betting is almost exactly 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 adjusted 'normalised' EBIT.

LARGE JACKPOT PAY-OUTS

Total pay-outs for secondary lotteries in 2018 were €2,633k above the expected pay-out value (2017: €12,725k). Combined with the €202k (2017: €190k) negative impact from the normalisation of hedging income, this resulted in a difference between actual and expected statutory EBIT of €2,835k (2017: €12,915k).

The deviation between actual and expected revenue and adjusted EBIT is driven by the amount actually paid out in prizes in the period.

Revenue

	2018	2017
in €k		
Actual	154,751	134,295
Expected[1]	157,384	147,020
Deviations[2]	**(2,633)**	**(12,725)**

Adjusted EBIT[3]

	2018	2017
in €k		
Actual	46,595	25,181
Expected[1]	49,430	38,096
Deviations[2]	**(2,835)**	**(12,915)**

[1] *Actual results adjusted for the normalisation effect.*
[2] *The difference between actual and expected amounts.*
[3] *In 2017, the Group presented EBIT adjusted for normalisation effects. In 2018, the Group has updated its alternative performance measure to present 'adjusted EBIT' adjusted for normalisation effects where 'adjusted EBIT' excludes exceptional items which could distort the readers' understanding of the financial statements. We believe this alternative performance measure is useful to enable a reader to compare underlying performance excluding the impact of irregular items and variances in pay-out ratios.*

FINANCIAL REVIEW

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

	2018	2017
in €k		
Revenue	154,751	134,295
Other operating income	4,901	6,951
Total operating performance (TOP)	**159,652**	**141,246**
Personnel expenses	(28,837)	(28,630)
Other operating expenses	(83,690)	(85,758)
Marketing expenses	(19,666)	(19,131)
Direct costs of operations	(44,323)	(43,365)
Other costs of operations	(19,701)	(23,262)
Exchange rate differences	617	(422)
EBITDA	**47,742**	**26,436**
Amortisation and depreciation	(1,147)	(1,255)
Adjusted EBIT	**46,595**	**25,181**
Exceptional items	(8,288)	–
Statutory EBIT	**38,307**	**25,181**
Financial and investing result	(322)	50
Profit before taxes	**37,985**	**25,231**
Income taxes	(11,322)	(8,053)
Profit for the year	**26,663**	**17,178**

REVENUE AND TOTAL OPERATING PERFORMANCE

TOP for the financial year 2018 amounted to €159,652k, (2017: €141,246k) representing an increase of €18,406k compared to 2017.

Consolidated revenue for the financial year 2018 amounted to €154,751k (2017: €134,295k) representing an increase of €20,456k compared to 2017. The increase in revenue is largely due to an increase in stakes from €241,306k to €254,538k. Improvements in the average jackpot for DLTB products in 2018 compared to 2017, the release of new instant win games and the introduction of Secondary Lotteries on the two US lotteries 'Powerball' and 'Mega Millions' in October and November 2017 are the main drivers in increasing stakes. The increase in revenue was also driven by the reduction in the value of exceptional prize payouts, which totalled €8,299k in 2018 (2017: €15,000k).

The decrease in other operating income is attributable to the decrease in income recognised from hedged tickets from €5,062k to €2,980k.

Fluctuations in revenue and other operating income are expected based on the timing of jackpot winners.

EXPENSES

For 2018, personnel expenses were €28,837k, (2017: €28,630k) representing an increase of €207k compared to 2017. The average number of full-time equivalent employees (FTEs) decreased to 262 in 2018 (2017 FTEs: 274). The beneficial impact of a reduced headcount has been offset by pay increases, one off payments to employees on termination of their contracts, and an increase in the annual company performance bonus accrued in 2018, due to the improved performance of the Group.

Other operating expenses decreased from €85,758k to €83,690k. The most significant contributory factors were:

- Increase in marketing expenses of €535k. The increased investment in marketing is consistent with our strategy to grow our international business via customer acquisition, specifically in the UK.

- The €958k increase in direct costs of operations is due to the recording of a €1,909k provision for Austrian gaming duty offset by a reduction in non-deductible VAT of €1,463k, due to one off costs in 2017.
- The decrease in other costs of operation of €3,561k, which is primarily due to a €1,161k reduction in legal costs, as a result of a decrease in the use of external advisors, and a €875k decrease in freelancer staffing costs, a result of using internal staff to perform projects. A further reduction in external recruitment has led to €228k of cost savings and the increased use of technology has driven down travel costs by €381k.

FINANCING AND INVESTING RESULT

The financing and investing result amounted to a loss of €322k (2017: gain of €50k), representing a decline of €372k compared to 2017. This is driven by the reclassification, on adoption of IFRS 9 on 1 January 2018, of gains and loss on financial assets from other comprehensive income to the income statement.

The remaining amounts recorded within this line relate to other interest income of €331k (2017: €385k) offset by interest expense of €204k (2017: €335k).

EXCEPTIONAL ITEMS

The Group incurred €8,288k (2017: nil) of costs which have been classified as exceptional due to their irregular nature. The most significant costs are described below:

- €2,983k was incurred in association with the closure of Ventura24's consumer-facing broker business. The costs include €2,362k of costs associated with employee severance.
- On 19 November 2018, the Group announced its intention to acquire Lotto24. Due to the one-off nature of the transaction these costs are considered to be exceptional. Transaction costs of €3,852k (2017: nil) were incurred by the Group. These costs include €2,156k of consulting costs, €767k of non-audit fees, €807k of legal costs, and €121k of public relations costs. €617k of additional costs associated with the proposed issue of shares have been capitalised within trade receivables and other current assets within the statement of financial position and are not recognised in the 2018 income statement. On issuance of the new shares, these costs will be reclassified to share premium.
- Ahead of the acquisition of Lotto24, the Group commenced the implementation of a restructuring programme. As a result, €1,253k of employee severance costs and €200k of other restructuring costs were incurred. The costs associated with this programme are considered to be exceptional due to them being irregular.

EBIT

Statutory EBIT in 2018 was €38,307k (2017: €25,181k) representing an increase of €13,126k compared to the prior year.

EBIT is within the revised guidance of €37,000k to €39,000k which was announced on 30 January 2019.

TAX

At 29.8%, the consolidated tax rate for the year was slightly lower than in the prior year (2017: 31.9%). The expected tax charge based on the blended rate of UK corporation tax of 19.00% (2017: 19.25%) is €7,217k (2017: €4,857k) compared to the actual tax charge recorded of €11,322k (2017: €8,053k). The most significant drivers of the tax charge being higher than the effective rate are described below:

- A tax expense of €184k (2017: tax expense of €333k) on non-deductible expenses and adjustments in respect of foreign tax rates
- A tax expense of €66k (2017: tax credit of €753k) in respect of adjustments relating to the prior years
- A tax credit of €307k (2017: tax credit of €128k) relating to the use of tax losses for which no deferred tax asset had previously been recognised
- A tax expense of €4,162k (2017: tax expense of €3,946k) on tax losses carried forward for which no deferred tax asset is recognised
- A tax credit of €250k (2017: nil) in respect of the recognition of previously unrecognised tax losses carried forward.

Other drivers include a credit in 2018 of nil (2017: €202k) relating to foreign exchange, and an expense in 2018 of €250k (2017: nil) which related to a movement in unrecognised timing differences.

KEY PERFORMANCE INDICATORS

The Executive Board and Supervisory Board use a range of indicators to continually assess performance, ensuring alignment between the Group's stated strategies and shareholder interests. These indicators include a mix of statutory and non-statutory measures, which facilitates comparisons against similar business within the industry. The Group's key performance indicators are set out on the next page.

Performance indicator	Definition	Relevance	Performance
Billings	Billings comprises all stakes from customers (including brokerage stakes and associated VAT) net of free bets.	This provides a measure of the Group's ability to increase the economic value of stakes from customers (including brokerage stakes) over a period of time.	2018: €296,286k 2017: €280,509k
Stakes	Stakes comprises all bet from customers net of free bets.	This provides a measure of the Group's ability to increase the economic value of stakes from customers over a period of time.	2018: €254,538k 2017: €241,306k
Normalised Revenue	Revenue which has been adjusted for the underlying statistical average pay-out ratio.	This provides a measure of underlying performance of the Group by removing deviations between the expected pay-out ratio and actual pay-outs made.	2018: €157,384k 2017: €147,020k
Total Operating Performance (TOP)	TOP is the sum of Revenue and Other Operating Income as disclosed in the Consolidated Income Statement.	This provides a measure of the statutory revenue and other operating income (including hedging income) of the Group.	2018: €159,652k 2017: €141,246k
Adjusted EBIT	Adjusted EBIT is Earnings Before Interest, Tax, and Exceptional Items.	This provides a measure of the Group's ability to increase the economic value of our operating activity over a period of time, excluding exceptional items which could distort the results of the Group period over period.	2018: €46,595k 2017: €25,181k
Normalised adjusted EBIT	Normalised Adjusted EBIT is Adjusted Earnings Before Interest and Tax, and Exceptional items, which has been amended for the underlying statistical average pay-out ratio.	This provides a measure of the Group's ability to increase the economic value of our operating activity over a period of time, excluding the impact of pay-out ratio variances and exceptional items which could distort the results of the Group reporting period over period.	2018: €49,430k 2017: €38,096k
Statutory EBIT	Statutory EBIT is the unadjusted Earnings Before Interest and Tax.	This provides a measure of the Group's ability to increase the economic value of our operating activity over a period of time.	2018: €38,307k 2017: €25,181k
Earnings per share (EPS)	EPS is profit attributable to the equity shareholders of the Group divided by share capital.	This provides a measure of the Group's ability to increase the inherent value of our business for our shareholders over a period of time.	2018: €3.18 2017[1]: €2.04
Net cash position	Net cash position is: Cash (without pledged cash) + Financial assets + Other current assets and prepaid expenses - Trade payables - Other liabilities - Income tax liabilities - €21,627k hedging reserve[2]	This provides a measure of the Group's ability to reinvest profits or to pay dividends to shareholders.	2018: €101,919k 2017: €69,512k
Operating cash flow	Operating cash flow is the cash flow generated by a Group in the course of normal business operations.	This provides a measure of the Group's liquidity in the short term.	2018: €38,202k 2017[3]: €13,152k
Average Billings Per User per month (ABPU)	ABPU is the average net billings received from each active customer in a given month. It is calculated by dividing monthly net billings by Average Monthly Active Users.	This provides a measure of the Group's ability to increase loyalty and value from our customers.	2018: €57.57 2017: €57.58
Average Monthly Active Users (MAU)	Average MAU is the number of unique users who have either purchased a bet or participated in a draw in a given month (including free bets).	This provides a measure of the Group's ability to retain and attract new customers.	2018: 403.5k 2017: 379.8k

[1] In line with the requirements of IFRS, the 2017 EPS has been restated from €2.05 to €2.04 as a result of the purchase of treasury shares by the Group in July 2018. Further details of the purchase can be found in note 19.
[2] Due to the implementation of a new ILS structure, the hedging reserve was decreased from €50,000k as at 31 December 2016 to $30,000k (€25,800k) as at 31 December 2017. It was further reduced to $24,000k (€21,627k) from 31 December 2018.
[3] The 2017 number has been restated. Details of the restatement can be found in note 2.23 of the financial statements.

DIVIDEND POLICY

The Company declared a dividend of €1.00 (2017: €1.00 per share) on 23 November 2018 and paid it on 28 December 2018.

Following the announcement of the acquisition of Lotto24, the Executive Board and Supervisory Board are reviewing the Group's dividend policy.

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 Lottovate segment, capital management activities of the Lottery Betting segment are handled by myLotto24 Limited – with the exception of Tipp24 Services Limited (Tipp24), which operates its own capital management system.

The principles and objectives of the Group's capital management are as follows (the risks to which ZEAL is exposed are described in the risk report on pages 26 to 32):

- 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.

Further information can be found in note 26 to the Consolidated Financial Statements.

ZEAL's equity increased in total by €16.6m to €123.2m in 2018. During the period, ZEAL distributed a dividend of €1.00 per share totalling €8.3m (2017: €8.4m). Over the same period, the equity ratio (total equity over total assets) decreased by 3 percentage points to 73%.

ZEAL did not hold any interest-bearing debt during 2018 or at 31 December 2018 (2017: none).

LIQUIDITY ANALYSIS

	2018	2017
in €k		Restated
Key cash flow positions		
Cash from operating activities	38,202	13,152
Cash generated from (used in) investing activities	5,554	(511)
Cash used in financing activities	(10,244)	(8,385)
Changes in cash and pledged cash and financial assets	**33,512**	**4,256**
Cash and pledged cash and financial assets at the beginning of the year[1]	112,375	108,119
Cash and pledged cash and financial assets at the end of the year	**145,887**	**112,375**

[1] In line with IFRS, for the purposes of the consolidated statement of cash flows, financial assets at the beginning of the year excludes €6,800k (2017: €6,546k) invested in equity funds. Details of the 2017 restatement can be found in note 2.23 to the financial statements..

Cash generated from operating activities in 2018 was €38,202k (2017 Restated: €13,152k) an increase of €25,050k compared to the prior year. The increase is primarily driven by the increase in profit before tax, a decline in the amount of tax paid in the period and and an increase in the deferred revenue and other liabilities balance.

Cash generated in investing activities in 2018 was €5,554k (2017: (€511k)) representing an increase of €6,065k compared to the prior year. In 2018, the Group received €6,567k (2017: nil) from the sale of financial assets held in equity funds and therefore not classified as cash. This was offset by €247k paid to acquire investments in Wshful and The Dream Makers (2017: €1,843k), €722k (2017: €1,436k) paid to acquire property, plant and equipment and €44k (2017: €236k) paid to acquire intangible assets.

Cash used in financing activities wholly relates to dividend payments of €8,341k (2017: €8,385k) and €1,903k paid to acquire treasury shares.

As of 31 December 2018, ZEAL Group had cash and pledged cash and financial assets of €145,887k (2017 restated: €112,375k). This includes funds that ensure that myLotto24 is sufficiently financed to make payments of potential jackpot winnings.

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, in 2018, 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 2018. The Group holds a number of bank guarantee facilities totalling €4,144k (2017: €3,006k). These guarantees are required to obtain certain licences and to secure future obligations under rental agreements for office space.

At 31 December 2018, ZEAL had off-balance sheet future obligations from operating lease agreements for offices and technical equipment in the amount of €11,344k (2017: €12,311k). ZEAL has future obligations of €2,200k (2017: €14,764k) from agreements containing obligations relating to services, insurance, maintenance and licences.

BALANCE SHEET STRUCTURE

FORECAST AND RISK REPORT

EXPECTED EARNINGS POSITION

In view of the special situation created by the Lotto24 transaction, which is moving closer to completion, and the transformation of its core German business model later in 2019, ZEAL does not intend to provide any financial guidance at this point in time.

RISK REPORT

RISK MANAGEMENT

ZEAL Network SE ('ZEAL Network' or the 'Company') has delegated the day-to-day responsibility for risk management to the management teams of the Group's two business segments ('Lottery Betting' and 'Lottovate'). In addition to the risks specific to ZEAL Network and its wholly owned subsidiaries (predominantly companies within the Lottovate segment), ZEAL's Executive Board also assesses the risk position of the companies included in the Lottery Betting segment (which primarily comprises those entities within the myLotto24 Sub-Group).

As the ZEAL Group only holds a minority shareholding in the fully consolidated myLotto24 Sub-Group, the assessment of risks within the Lottery Betting 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.

The ZEAL Group is exposed to the typical sector and market risks associated with the economic activities of an international group 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 pay-outs 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 Group'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 ILS, 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. Refer to the Corporate Governance and Audit Committee Reports for further details concerning the various Board and Committee structures.

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

MARKET AND SECTOR RISKS

1. Risks related to regulatory environment, legal and tax risks

1.1 Uncertainties relating to the regulatory environment could have a negative impact on ZEAL's business activities.

ZEAL's business depends on its Secondary Lottery activities in the German online market. In Germany, the State Treaty on Gambling, which came into force on 1 July 2012 ('Treaty on Gambling 2012'), prohibits the private operation of lotteries and has established the principle that the operation and brokerage of public games of chance on the internet is generally prohibited. Only the online brokerage, but not the operation, of lotteries and the operation and brokerage of sports bets on the internet may be permitted by the Federal States. There is expressly no legal entitlement to the granting of a licence; rather it is a discretionary decision of the competent authority.

The operation of Secondary Lotteries in Germany is regarded as a violation of the gambling and lottery monopoly constituted by the Treaty on Gambling 2012, and, accordingly, as illegal activity by, among others, the sixteen State Lottery Operators. ZEAL is facing a number of administrative and civil proceedings, in particular aimed at prohibiting Tipp24 Services Limited and myLotto24 Limited from doing business in the German market.

ZEAL conducts business in a number of other regulatory jurisdictions including, Ireland, Norway, the Netherlands, Spain and the UK. ZEAL cannot predict the development of the regulatory framework in these jurisdictions and in other jurisdictions in which ZEAL may become active in the future. Any potential change could have a negative impact on ZEAL's business in the concerned market.

Management of risk

We continue to closely monitor the German and wider EU legislative and regulatory environments and engage specialists where required. The proposed acquisition of Lotto24 and the transformation of the myLotto24 Sub-Group's lottery betting business into a licensed private online brokerage business, is a cornerstone of management risk mitigation strategy and part of a process of de-risking the business.

1.2 ZEAL is exposed to risks from present and potential future legal disputes. Tipp24 Services Limited and myLotto24 Limited could be forced to discontinue their business activities in certain or all Federal States of Germany.

Subsidiaries of ZEAL currently are, or may become in the future, involved in passive and active out-of-court disputes, litigations, arbitrations and administrative proceedings and governmental investigations. ZEAL may be required to discontinue its business activities, to pay damages or fines and to take, or to refrain from taking certain actions.

Tipp24 Services Limited and myLotto24 Limited are currently involved in legal proceedings before several administrative and civil courts in Germany. Tipp24 Services Limited offers customers in Germany brokerage services for Secondary Lotteries, which are operated by myLotto24 Limited. A number of German gambling supervisory authorities claim that the offering of Secondary Lotteries on the Internet is an illegal activity. Thus, the gambling supervisory authorities of certain German Federal States and state lottery operators, have issued administrative orders against Tipp24 Services Limited and myLotto24 Limited with the demand to discontinue the offering of Secondary Lotteries in these Federal States (each a 'Prohibition Order'). Tipp24 Services Limited and myLotto24 Limited have filed appeals against each Prohibition Order addressed to them to the competent administrative courts.

In the event of a negative outcome of any material proceedings, whether based on a judgment, award or settlement, ZEAL could be obliged to discontinue parts of its business or make substantial changes to its business model or make substantial payments.

Management of risk

Each company has engaged experienced legal experts to advise and support on the legal proceedings which Tipp24 Services Limited and myLotto24 Limited are involved in. We continue to monitor the overall regulatory environment in Germany and other EU countries.

The proposed acquisition of Lotto24 and transition of the business to a licensed brokerage model in Germany is expected to reduce the risks currently faced by the Group in Germany. In February 2019, the Germany gambling authority approved the business model switch and Lotto24 received its amended broker permit. Having obtained a licence, ZEAL and Lotto24 are now working to transition the business model of ZEAL.

1.3 ZEAL is exposed to potential fines as a result of the ruling against Ventura24 S.L.U.

In October 2018, in the context of a legal dispute between the Spanish Gambling Commission (DGOJ) and Ventura24, on Ventura24's right to operate a consumer-facing broker business (B2C) in Spain, the Spanish Supreme Court determined that the Ventura24 business does require a licence granted by the Lottery operator (SELAE) to manage the online purchase of lottery products. Such a licence has not been granted in the past and is unlikely to be granted in the future. As a result, the DGOJ instructed Ventura24 to cease operating its B2C business and Ventura24 closed its B2C operations in December 2018. The DGOJ has the right to start sanction proceedings against Ventura24 and potentially fine the Company.

Management of risk

Ventura24 engaged experienced legal experts to advise and support on the discussions between the DGOJ and the company. The company has worked closely with the DGOJ to ensure an orderly closure of the B2C business and has complied with the requirements and instructions of the DGOJ regarding this closure.

1.4 ZEAL depends on permits, licences and other governmental authorisations for its business. The authorities could not renew, revoke or adversely modify these authorisations. ZEAL may fail to obtain new authorisations it requires for the expansion in further lottery markets.

ZEAL is active in several European jurisdictions, and ZEAL intends to enter into further markets in the future. Each jurisdiction has different laws and regulations regarding gambling and lottery legislation that are not harmonised under European law. The conduct of ZEAL's business activities depends crucially on these regulatory environments. The offering of lottery and other gambling products is typically subject to restrictions, in particular the requirement that they must not be offered without permits, licences and other authorisations granted by the competent authority.

The authorisation procedures are often complex, time-consuming and costly, and may be influenced by factors that are beyond ZEAL's control. The issuance of new, and the renewal or extension of existing authorisations is also often subject to a considerable discretion by competent authorities and the authorities may introduce new requirements and conditions. ZEAL may fail to renew authorisations required for its existing business activities and to obtain new or extensions of existing authorisations it requires for the expansion in further lottery markets. ZEAL's business strategy to enter into new markets could suffer significant setbacks if a required authorisation will not be granted at all or granted only after a considerable delay (e.g. after successful legal proceedings to obtain the authorisation).

Management of risk

The Group continues to closely monitor changes to the licence requirements in each location in which we operate. Local experts are engaged as necessary and the Group maintains strong relationships with local regulators.

1.5 Uncertainties and changes relating to ZEAL's regulatory tax environment for its online offerings can significantly impact its business. ZEAL could be required to pay additional taxes, including lottery taxes, and other duties as a result of tax audits, or legal proceedings relating to tax assessments.

ZEAL is subject to various tax laws across several jurisdictions and dependent on their application and interpretation. Tax laws and administrative guidance (relating, among other things, to their interpretation or application) might be subject to changes, and changes in tax laws, their interpretation or application could increase its future tax burden.

During 2017, the German tax authority commenced a tax audit related to the tax years 2012 to 2014 concerning ZEAL Network SE. The Company has, to its knowledge, provided the German tax authority with all requested information and, as at the date of the statement of financial position, has received no communication from the tax authority since that time. The Company is not aware that any further tax obligations from this period exist. However, it cannot be ruled out that the tax audit for the tax years 2012 to 2014 as well as future tax audits may result in additional claims for taxes and social security contributions for which no or insufficient provisions have been recorded.

Due to the changes in German VAT legislation introduced on 1 January 2015, there is judgement 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. 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.

In Austria, there are two separate legislative regimes (the Gambling Act and the Duties Act) which dictate the taxation/duty that can potentially be levied on the services provided by myLotto24. The co-existence of these two acts has given rise to uncertainty in respect of the basis on which taxation/duty should be accrued. This uncertainty is caused by the distinction drawn in the acts between games of chance (taxed at 40% of gross gaming revenues) and betting (currently taxed at 4% of stakes).

Management of risk

As the matters referred to above principally impact 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 analysis 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 legislative changes. The Directors are satisfied sufficient diligence has been undertaken in considering the change of law to its business.

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 a review of the facts and independent legal advice, 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. 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 24 to the Consolidated Financial Statements.

In Austria we have engaged local experts to provide legal advice. At 31 December 2018, the decision was taken by management to provide €1.9m for the expected outflow of cash.

2. Risk related to the market

2.1 ZEAL could be adversely affected by declines in the demand for Primary Lotteries and general declines and economic downturns in these markets.

The success of both the secondary lottery and lottery brokerage 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 business. Furthermore, the entry of competitors into the market, especially online service providers, may also restrict further growth.

A general decrease in the economic growth or a deterioration of the economic conditions, including consumer confidence and spending, could negatively impact the lottery markets. Economic downturns in any of ZEAL's markets or even a complete collapse in the global economy would constitute a risk for ZEAL's business.

Management of risk

ZEAL has no direct control over the operation of the primary lotteries in the countries in which ZEAL trades. 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.

ZEAL 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. Historically the lottery sector has been resilient to downturns in the economy.

2.2 The withdrawal of the United Kingdom from the European Union could lead to ZEAL no longer being able to offer its secondary lotteries in other member states of the European Union. Additionally it could lead to a UK based recession which could impact the ability of the Group to be a going concern.

The outcome of the negotiations between the EU and the UK as regards the framework of the future relationship, in particular, the terms and conditions for the post-Brexit access of the UK to the European single market, is not clear. If a Withdrawal Agreement is not approved by 29 March 2019, the UK might leave the EU and become subject to World Trade Organisation rules without a transition period being implemented.

The access of Tipp24 Services Limited, and other subsidiaries of ZEAL (including myLotto24 Sub-Group) registered in the UK, to the EU markets is currently based on the fundamental freedom to provide cross-border services from one Member State into any other Member State. It is therefore uncertain whether any of them will be entitled to offer secondary lotteries in the remaining Member States after the UK has left the EU. In the event that any of them no longer has access to these markets based on its UK licences, ZEAL may lack the time to obtain a licence in a Member State. This could lead to a business interruption and have a material adverse effect on ZEAL's business, prospects, financial condition, results of operations or cash flows.

There is a risk of a recession in the United Kingdom and EU countries following a no deal Brexit. This could result in a decline in customers sales and could impact the ability of the Group to be a going concern.

Management of risk

ZEAL has applied for a gambling licence in Malta, an EU member state, to allow it to offer secondary lottery within the EU in the event that the UK leaves the EU on the 29 March 2019 without a transitional deal agreed. The licence is expected to be approved imminently. The Directors are also confident that recessions, following a no deal Brexit, would have a limited impact on the ability of the Group to be a going concern. Historically the secondary lottery and brokerage sectors have not been significantly impacted by recessions.

2.3 ZEAL is exposed to currency risks, in particular due to the exchange rate of the British Pound Sterling and the US Dollar against the Euro.

ZEAL operates in jurisdictions whose official currency is the euro (Germany, Ireland, the Netherlands and Spain) as well as in jurisdictions with other currencies, namely Norway (Norwegian krone) and the UK ('GBP'). In addition, ZEAL incurs a material amount of its costs in US Dollars ('USD'), in particular in relation to the costs incurred by its hedging instruments. ZEAL's financial accounting and the basis for calculating dividends is based on the Euro. Because ZEAL does not generate significant revenue in currencies other than the Euro, it is exposed to a currency risk, in particular due to the exchange rate of GBP and USD against the Euro. Approximately 35% to 45% of ZEAL's cost base is denominated in either GBP or USD.

Management of risk

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

3. Risks related to the business

3.1 ZEAL is exposed to bookmaking risks through the myLotto24 Sub-Group as operator of Secondary Lotteries. Lottery prizes owed to customers could exceed myLotto24 Sub-Group's own funds and the coverage provided under hedging arrangements.

myLotto24 Limited bears the bookmaking risks for its secondary lottery business where 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 order to make the bookmaking risks manageable and to prevent a high lottery win from posing a threat to the existence of myLotto24 Sub-Group, a multi-layer hedging strategy was introduced, consisting of hedging reserves of USD 30,000k, insurance coverage in the amounts of USD 90,000k and USD 33,000k, special insurance coverage of EUR 20,000k per draw and EUR 40,000k in aggregate for all draws within the term of the insurance, as well as the purchase of tickets in Primary Lotteries matching the numbers or other elements of bets placed by customers on myLotto24 Sub-Group's online platforms for the related Secondary Lottery ('Physical Hedging'). The purchase of lottery tickets from Primary Lotteries is at the expense of myLotto24 Sub-Group's and ZEAL's profit margin and is more expensive than the insurance premiums to be paid under the hedging strategy. Accordingly, Physical Hedging is a suitable hedging instrument provided that the stakes generated through the sale of a Secondary Lottery cover at least the costs of the purchase of matching entries in the corresponding Primary Lottery (which is typically the case for 'Powerball', 'Mega Millions' and 'EuroMillions').

3.2 Insurers providing coverage for the event of a high jackpot could be unable, unwilling or not obliged to pay out the insurance benefit.

It cannot be ruled out that in the event that myLotto24 Sub-Group has to assert an insurance claim due to a high jackpot won by one of its customers that the insurer is unable or unwilling to pay or disputes its payment obligation.

Under certain conditions, the insurers under the Jackpot Insurances are not obliged to indemnify the insured in respect of a jackpot winning lottery bet, notably if the insured receives the lottery prize as principal for its own accounts under other insurances, hedging instruments or other risk mitigation techniques, such as Physical Hedging. In particular, the insurance company may consider that myLotto24 Sub-Group should have paid the jackpot from its own resources, taking into account the reserves or physically hedged lottery bets. Moreover, it cannot be ruled out that an insurance company itself is in financial difficulties and cannot pay-out the insurance benefit.

Furthermore, it cannot be excluded that the operators of Primary Lotteries have implemented structural changes in the game concepts which are not reflected in the terms and conditions of the Jackpot Insurances with the consequence that there is no or not sufficient insurance cover.

Any refusal to pay out the insurance benefit could have a material adverse effect on the financial position and performance of ZEAL's business, prospects, financial condition, results of operations or cash flows.

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. Structural changes in the game concept made by the operators of Primary Lotteries are reviewed and changes to the hedging arrangements made, as necessary.

3.3 Payment transactions may be restricted and payment service providers for the gambling market may leave this market segment or increase their fees for payment transactions.

National or international payment transaction restrictions may be introduced in connection with the further regulation of gambling markets. The number of available payment service providers for the gambling 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. This applies, in particular, for payments by means of credit cards as the number of credit card associations is limited. At the date of the Annual Report, ZEAL accepts credit card payments from the two most widespread associations, VISA and Mastercard.

Management of risk

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

3.4 ZEAL's business activities are highly dependent on complex IT systems. Actual or alleged procedural errors or functional problems in the processing of gambling orders and the payment of lottery winnings could result in claims for damages from customers for lost gambling winnings and significantly impair ZEAL's reputation.

ZEAL uses a number of automated processes to handle customer transactions. The efficiency and reliability of ZEAL's offerings and services is therefore highly dependent on the functionality and stability of the underlying technical infrastructure and any interruptions in, failures of or damage to its IT systems could lead to delays or interruptions in ZEAL's business processes. Accordingly, the functionality of ZEAL's online platforms and the associated hardware and software infrastructure is essential for ZEAL's business activities, its reputation and its attractiveness to customers and business partners. Malfunctions and instabilities of the IT infrastructure, including the online platforms, as well as in the existing hardware and software cannot be completely ruled out and ZEAL cannot guarantee that anticipated and/or recognised malfunctions or security deficits can be avoided by appropriate preventive security measures in every case.

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).

3.5 ZEAL is dependent on the internet and on the online availability of its platforms for its products and services, in particular on mobile devices, and unavailability, including the blocking of its mobile apps, could be detrimental to its business.

As ZEAL relies on the internet and mobile apps for virtually all of its operations, ZEAL might be subject to disruptions and slowdowns of the internet in general or, more specifically, certain websites, applications or app stores. In particular, if customers cannot access ZEAL's websites or download or access its mobile apps, even only temporarily, they are excluded from placing bets and ZEAL would be unable to accept lottery bets or to sell other products. Customers may also manipulate systems to perpetrate fraud.

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). The Group employs a dedicated payments, fraud and verification team to review all transactions which take place and investigate any unusual transactions. No payments to customers are made until these checks have been performed.

3.6 ZEAL is dependent on the expertise, commitment and performance of key members of its management and qualified employees and ZEAL may fail to hire or retain such personnel.

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.

3.7 ZEAL may fail to adopt and apply technological advances in a timely manner and to anticipate trends in the lottery market and thus lose market shares.

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 twice a year basis to ensure that a full risk profile is developed and current.

3.8 Risks arise for ZEAL's business from potential counterparty default, in particular relating to cash and cash investments.

ZEAL frequently holds significant cash balances on deposit with financial institutions or has it invested on a short-term basis. As at 31 December 2018, ZEAL held cash and pledged cash in Germany, Spain, Switzerland and the UK in the amount of €133m in bank accounts with various European banks. As well as financial assets of €12.9m. In addition, ZEAL could be owed significant amounts of money by payment processors, relating to funds collected from its customers before they have been transferred to ZEAL.

These deposits, financial assets and other contractual arrangements give rise to credit risks on amounts due from counterparties, including financial institutions. ZEAL may experience write-downs or severe delays in payments by counterparties. The financial failure of certain financial institutions where ZEAL holds balances could lead to a partial or complete loss of its deposits. Similarly, the collapse of individual issuers of financial assets may lead to the partial or complete loss of these financial assets.

The collapse of any bank or individual issuers of financial assets may lead to the partial or complete loss of these cash deposits or financial assets. It is also possible that ZEAL must withdraw cash from an account bank within a short time to satisfy its liabilities, but that the bank refuses to make the withdrawal due to significant restrictions of business across the backdrop of regulatory developments or for any other reason.

Each such event could have a material adverse effect on ZEAL's business, prospects, financial condition, results of operations or cash flows.

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

CSR REPORT

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

The ZEAL Group has fostered its CSR work through key partnerships, formed over time and creating value for all the stakeholders involved. We have partnered with several organisations which help us distribute our funds in a transparent and coherent manner to our beneficiaries. We want to be known for what we achieve and not just for what we give!

PROMOTING SPORT WITH SPORTSAID

We strongly believe in supporting young people during those challenging times in the early part of their 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 established in 2014, we have supported 232 up-and-coming athletes in 43 different disciplines including winter and para-sports. In addition, we organise a number of events throughout the year, promote our partnership with SportsAid and raise additional money. Examples include an athlete and parent networking evening, a full day athlete workshop at Loughborough University and internal fundraising challenges to raise further funds for the charity. ZEAL Group employees volunteer as Buddies to act as a point of contact for the athletes and their parents to share their achievements and upcoming competitions.

EMPOWERING NEIGHBOURHOODS

The 'Good Neighbourhood Fund' supports grassroots initiatives in London neighbourhoods in partnership with The London Community Foundation (LCF). 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. Our fund supports a number of local organisations each year, ranging from a foodbank to a community garden. 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 thirteen organisations across various London boroughs with grants of up to £10,000 each, per year. Projects include SUFRA, a community Food Bank and Kitchen and HAVEN, a charity working with survivors of abuse. Since 2014, the myLotto24 Good Neighbourhood Fund has helped improve the lives of 2,000 people across London.

With the launch of myLotto24's business in Ireland, the Group expanded our CSR work across the sea and partnered with the Marie Keating Foundation and Community Foundation for Ireland.

PROVIDING COMFORT

The Marie Keating Foundation was set up by her family after her death from breast cancer. The type of cancer she suffered was easily treatable, but Marie died because she did not know enough about cancer and the importance of early detection. The Foundation offers a range of cancer awareness and support services with a key focus on ensuring that men, women and families are provided with the necessary information to prevent cancer or detect it at its earliest stages. myLotto24 Limited, a ZEAL group company, contributes to the Comfort Fund which provides financial assistance to people who are currently receiving treatment for any kind of cancer, and who, as a result, find themselves in financial difficulty. To date we have contributed to 534 grants to families affected by cancer.

CARING FOR THE COMMUNITY

The Community Foundation for Ireland ('CFI') was established in 2000 with the intention of helping to grow philanthropy in Ireland and building a permanent fund to support charitable causes. CFI is part of a global network of community foundations. We have set up the 'myLotto24 Fund' which will be administered by the CFI and will be supporting a number of grass-roots projects, working on the ground in Ireland. Our aim is to support projects which are working front line in local communities, tackling difficult and challenging issues.

WE CARE FOR OUR PEOPLE

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.

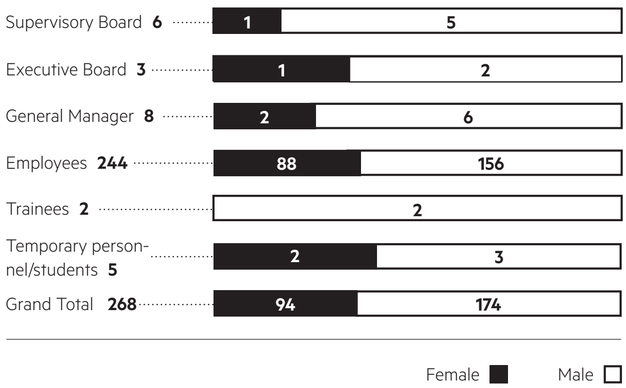
We consider instant feedback and continuous learning as essential and therefore offer every employee the opportunity to develop their knowledge. Training is delivered and encouraged in a number of flexible ways: allowing employees to participate in traditional on-site training, extending experiences 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 2018, ZEAL Group invested €354k (2017: €366k) in training activities. Various staff training programs were offered 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 can exist in multinational companies.

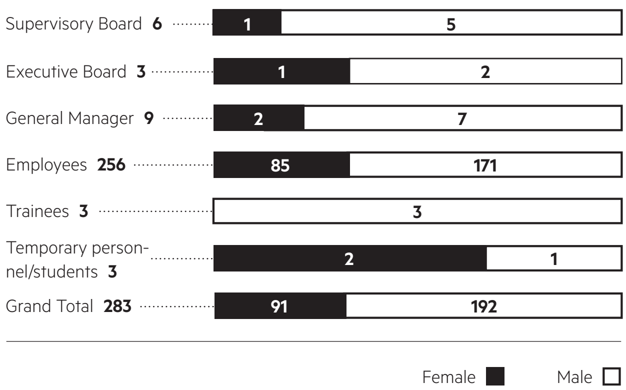
DIVERSITY

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 average gender split of our Supervisory Board, Executive Board and staff during 2018 and 2017 can be seen below. 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.

2018



2017



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.

4.54%

INTENSITY RATIO

702.5

CO_2 (METRIC TONNES)[1]

Dr. Helmut Becker
Chief Executive Officer
20 March 2019

[1] *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.*

SIGNIFICANT SHAREHOLDERS

The provisions of the UK Disclosure 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:

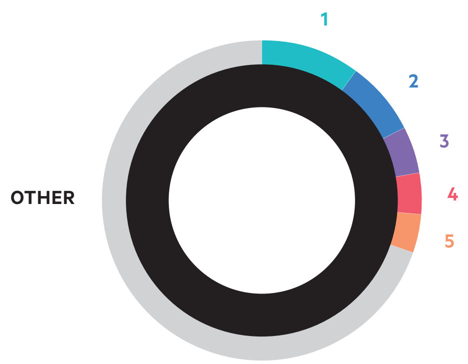
- when an investment company holds 5% of shares issued by the Company,
- when the investment company reaches a shareholding of 10%,
- for every percentage point above 10% of the issued shares of the Company,

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 100% (2017: 100%) of the Company's listed shares. Clearstream Banking AG does not exercise any control over the Company or the Group. Based on information received by the Company at 31 December 2018 (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 2018 and as at the date of this report are set out below:

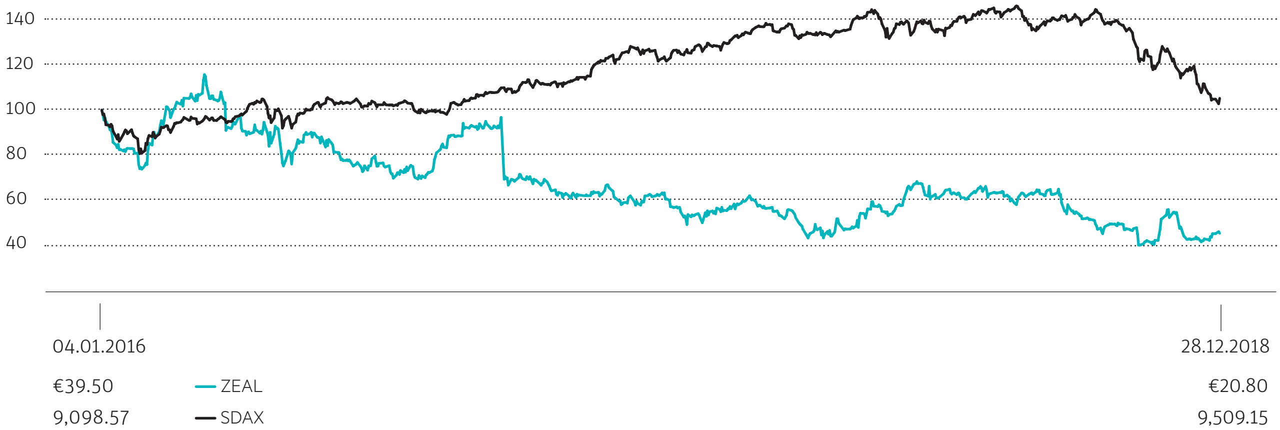
10.22%[1]	1	Oliver Jaster (held indirectly through a chain of controlled undertakings: Günther SE, Günther Holding SE, Othello Drei Beteiligungs-Management GmbH, Othello Drei Beteiligungs GmbH & Co. KG)
7.34%[2]	2	Working Capital Management Pte. Ltd. (held indirectly through a chain of controlled undertakings: Working Capital Partners, Ltd.)
4.82%	3	Marc Peters
4.11%[3]	4	Farringdon Capital Management (held indirectly via (1) Farringdon I – SICAV, (2) Farringdon II SICAV and (3) Blackwell Partners Series A)
3.995%[4]	5	GS&P Kapitalanlagegesellschaft S.A.



[1] Percentage of interest calculated taking into account directors' dealings notifications received.
[2] Working Capital Management Pte. Ltd. holdings remained at 7.34%, at the reporting date.
[3] Farringdon Capital Management holdings decreased to 3.96%,, subsequent to the reporting date.
[4] GS&P Kapitalanlagegesellschaft S.A. holdings decreased to 3.96%, subsequent to the reporting date.

In January 2019 Lottoland Holdings Limited acquired a 5.53% interest in the Company. This holding was unchanged at the reporting date. No other holdings of 3% or more of the voting rights in the Group have been notified to the Group between 1 January 2018 and 20 March 2019, both dates inclusive.

PERFORMANCE OF ZEAL SHARE (INDEX 04.01.2016 = 100)



Key share figures

Day of initial listing	**12/10/2005**
Year-opening price	**€21.45**
Market capitalisation (year-opening)	**€180m**
Year-end price	**€20.80**
Market capitalisation (year-end)	**€173m**
Highest Price (08/03/2018)	**€28.65**
Lowest Price (11/10/2018)	**€19.00**
Number of outstanding shares (31/12/2018)	**8,341,178**
Average daily trading	**€644k**
Dividend for 2018 (per share)	**€1.00**

Shareholder information

WKN	**TPP024**
ISIN	**GB00BHD66J44**
LEI Code	**391200EIRBXU4TUMMQ46**
Ticker symbol	**TIM.DE**
Stock exchange	**Frankfurt Stock Exchange**
Market segment	**Regulated Market, Prime Standard**
Designated sponsor	**ODDO SEYDLER BANK AG**
Coverage	**Berenberg Bank** **Kepler Cheuvreux** **M.M.Warburg**
Reuters	**TIMGn.DE**
Bloomberg	**TIM GR**

GOVERNANCE

EXECUTIVE BOARD AND SUPERVISORY BOARD

The Executive Board and Supervisory Board currently comprise a total of eight Directors. This includes two 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 40 to 41.

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 $1.3 billion 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 – RESIGNED 31 AUGUST 2018

Executive Director (COO)

Susan Standiford joined as Chief Technology Officer in May 2015; her role evolved to Chief Operating Officer, a position she held until she resigned in August 2018. With over 20 years of experience in the software development and information technology sectors, she developed vast expertise in delivering innovative, value-based solutions in Lottery Betting and the Lottovate 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. PETER STEINER

Supervisory Director (Chairman)

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 succeeded Andreas de Maizière as Chairman of the Supervisory Board at the conclusion of the AGM in June 2017.

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

5. LESLIE-ANN REED

Supervisory Director (Vice-Chair)
Leslie-Ann Reed is a Chartered Accountant who has served in both Executive and Non-Executive roles in publicly listed entertainment media and professional services companies. Leslie-Ann is currently Non-Executive Director and Chair of the Audit Committee for Learning Technologies Group plc which is listed on the London Stock Exchange.

From 2010 to 2012, she was Chief Financial Officer of the global online B2B auctioneer Go Industry plc, and ultimately, led the successful sale of the business. Between 2007 and 2010, Leslie-Ann was as an adviser to Marwyn Investment Management, a private equity company, overseeing its acquisitions strategy.

Prior to this she served as Chief Financial Officer of global commodities and economic research media group Metal Bulletin plc, helping to lead its transition from printed products to an online data and news service.

After a career at Arthur Andersen, Leslie-Ann held senior finance leadership positions at Universal Pictures, Polygram Music, EMI Music and Warner Communications Inc.

Committee Membership: Chair of Audit Committee

6. 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. In addition, he has been a member of the Supervisory Board of Lotto24 since May 2012. Mr Hehl has worked for the Günther Group since 2008, is currently Chief Financial Officer of Günther Group and is Managing Director of several Günther Group companies. 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

7. OLIVER JASTER

Supervisory Director
Oliver Jaster has been a Member of the Supervisory Board of ZEAL since 2008. He is currently the controlling shareholder of Günther SE and Chairman of multiple companies in the Günther Group. Previously he 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

8. 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.

9. 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

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 United Kingdom.

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 two 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 the 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.

Peter Steiner is the current Chairman of the Supervisory Board. Mr Steiner 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 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: Leslie-Ann Reed (Vice-Chair), Thorsten Hehl, Oliver Jaster, Bernd Schiphorst and Jens Schumann.

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 2018

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 four ordinary meetings in 2018, which were attended by all members who held positions at the time of the meeting.

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 chairperson reports 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. In addition, in November 2018 the Supervisory Board established a Special Committee which comprises members of the Supervisory Board who have no personal interest in the acquisition of Lotto24 (namely Leslie-Ann Reed, Peter Steiner and Bernd Schiphorst). The Supervisory Board delegated to the Special Committee the power to resolve on any matters within the responsibility of the Supervisory Board that relate to the acquisition, including the approval of the issuing of any shares of the Company. The Committee meets as required.

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 three meetings in 2018, which were attended by all members.

AUDIT COMMITTEE

The Audit Committee is responsible for overseeing the external audit and monitoring the effectiveness of the Company's framework of internal control. The Committee held 6 meetings in 2018.

The Audit Committee Report, including the number of meetings held and attendees, can be found on pages 42 to 44.

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

Dr. Helmut Becker
Chief Executive Officer
20 March 2019

Peter Steiner
Supervisory Board Chairman
20 March 2019

AUDIT COMMITTEE REPORT

The Audit Committee's overarching responsibilities are to oversee the external audit 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 and risk management systems 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 auditor and agreeing the audit fee. The external auditor can only be replaced and reappointed by the Audit Committee.

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

Name	Appointment Date	Committee Role
Leslie-Ann Reed	14 July 2017	Chair
Peter Steiner	28 June 2013	Member
Thorsten Hehl	28 June 2013	Member

Leslie-Ann Reed is the Chair of the Audit Committee. The Chair 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. She is independent and has not previously been a Member of the Executive Board.

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

The Audit Committee meets as required. It held a total of 6 meetings during the course of 2018, the number of meetings attended by each member is detailed in the table below:

Name	Number of meetings attended in 2018
Leslie-Ann Reed	6
Peter Steiner	5
Thorsten Hehl	5

The Chief Financial Officer attends the Audit Committee 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 audit plan for 2018, the interim audit update and the annual accounts were also attended by representatives of the external auditor, Ernst & Young LLP.

AUDIT COMMITTEE'S WORK IN 2018

The key matters discussed by the Audit Committee during the year were as follows:

VAT RISK

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. During 2018, the Audit Committee has received regular briefings regarding this matter. Based on these briefings, the Audit Committee has concluded (in line with the 2017) that it is not probable that any liability will arise and agreed with the decision not to record any liability in the financial statements.

AUSTRIAN GAMING DUTY

The Audit Committee was provided with information on the Austrian tax authority's investigation into the operation of the certain subsidiaries of the Group and whether the activities of these entities should be subject to gaming duty. The Audit Committee has been provided with the assessment of the potential liability and the likelihood that the Group can successfully defend its position. The Audit Committee agrees with the quantum of the provision recorded in note 18 to the consolidated financial statements.

REVENUE RECOGNITION

The Group's revenue mainly consists of a large volume of predominantly low value transactions, processed through the Alinghi platform. The Audit Committee has assessed the risk of revenue recognition issues which may arise either through classification errors or manual journal adjustments. The Audit Committee has reviewed the controls in place in relation to revenue recognition, and is satisfied that they are robust and appropriate.

LEGAL AND REGULATORY ENVIRONMENT

As part of the ongoing regulatory compliance and operational risk assessment process, the Audit Committee is provided with regular updates on regulatory and legal developments and considers their potential impact on the financial statements and the long term viability of the business. The Group is subject to legal cases concerning its ability to provide secondary lottery products in Germany. The Audit Committee has been provided with legal advice as to the manner in which it should respond and the likelihood of success of such actions. Where the Directors are able to quantify reliably any material outflow of funds, the Audit Committee agrees with the quantum of the provision recorded in note 18 to the Consolidated Financial Statements.

The Group's subsidiary Ventura24 received instruction in October 2018 by the DGOJ in Spain to cease operating its B2C business. The Audit Committee has assessed the impact of the closure, finalised in December 2018, on the Group's ongoing profitability and current hedging structure. The Audit Committee agrees with management's assessment that the closure will not have a material impact on the Group. The Audit Committee assessed the outflow of funds associated with the closure and the appropriateness of their classification on the face of the consolidated income statement as exceptional items, the Audit Committee agrees with the presentation and the quantum of the provision recorded in note 18 to the Consolidated Financial Statements.

ACQUISITION OF LOTTO24

The Audit Committee has assessed the impact of the acquisition of Lotto24 on the 2018 Annual Report and reviewed the accounting papers prepared by management. The costs presented as exceptional have been reviewed along with the disclosures made in the Annual Report. The Audit Committee has also reviewed the costs associated with the restructure of ZEAL prior to the acquisition, these costs have been classified as exceptional as a result of them being one-offs. The Audit Committee agrees with the presentation in the consolidated financial statements.

In line with the independence requirements the Audit Committee approved the additional non-audit fees incurred by EY, in relation to the acquisition, prior to the start of any work.

The successful acquisition of Lotto24 will have a significant impact on the Quarterly Statements and Annual Report in 2019 and the Audit Committee will be actively involved in reviewing the accounting treatments and judgements made by management.

REVIEW OF THE ANNUAL REPORT AND FINANCIAL STATEMENTS

The Audit Committee has reviewed the Annual Report and Financial Statements – including the report of the external auditor – for the year ended 31 December 2018 as issued in March 2019. In addition, it reviewed the quarterly financial statements issued in May, August and November 2018. As part of these activities, the Audit Committee has reviewed the key accounting treatments and judgements taken throughout the year (including those listed above).

EXTERNAL AUDITORS

In relation to the external auditors, the Audit Committee has deliberated about whether or not to recommend their reappointment, reviewed the external audit plan in advance of the audit for the year ended 31 December 2018, approved the external audit fee, and performed an assessment of their effectiveness. More detail on this element of the Audit Committee's activities is included in a separate section below.

INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS

During the year, the Audit Committee has reviewed and monitored the effectiveness of the Group's internal controls and risk management systems.

Risk management procedures include the annual identification, assessment and scoring of risk, and review of mitigation plans.

The Audit Committee has been provided with regular updates on the processes which are in place to identify and mitigate fraudulent activities and data protection issues.

More detail on this element of the Audit Committee's activities is included in a separate section below.

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 they are aware of, that should be brought to the attention of the Executive Board and Supervisory Board – this includes any impact on the Group's financial performance and compliance with the Company's Corporate Governance Principles.

The external auditor takes part in the Audit Committee meeting on the annual Consolidated Financial Statements and reports on the results of its audit. The external auditor also attends the Audit Committee meetings to discuss the audit plan for the year and provide an interim audit update.

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 Supervisory Board and Executive 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 €5k 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 100 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, and regularly conducts reviews of the effectiveness of the Company's risk management and internal control systems. These reviews cover 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 Audit Committee reviewed and monitored the work of the Executive Board during the year.

The internal control framework comprises principles, procedures and measures that are geared towards the implementation of controlled management decisions. It is designed to ensure the effectiveness and efficiency of business activities (including the protection of assets and the prevention and disclosure of asset impairment), the quality and reliability of internal and external accounting, 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 mitigate potential risks in the accounting function:

- The Executive Board is responsible for the internal control and risk management framework with regard to the accounting and consolidation processes.
- The reporting structure relating to all 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 organisation of the accounting-related internal control and risk management system are documented in guidelines and organisational directives. These are regularly adapted to reflect external and internal developments.
- Certain accounting-related processes (in particular payroll) 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.

The Group has no formal internal audit department but the Executive Board 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. This reporting contains detailed analysis and narrative reviews of the Income Statement, the Statement of Financial Position and the Statement of Cash Flows compared to budgeted, forecasted and comparative results. These reports are provided to the Audit Committee and Board of Directors.

Leslie-Ann Reed
Member of the Supervisory Board
and Chair of the Audit Committee
20 March 2019

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 2018. 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 remuneration policy which became 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.

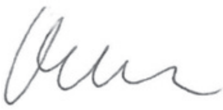
We will submit the remuneration policy for shareholder approval every three years unless a change in the policy is proposed. There has been no change in the remuneration policy during 2018.

PERFORMANCE AND OUTCOME

For the year ended 31 December 2018, the Group delivered strong normalised revenue and adjusted normalised EBIT. The remuneration policy effective for the 2018 financial year saw the Executive Board members achieve their Short-term Incentives (STIs) bonus targets and the transitional incentive targets. The 2016 long-term incentive (LTI) plan vested at 31 December 2018. Payments in lieu of bonuses awarded for the 2018 period for Susan Standiford have been made in January 2019. Payments for bonuses awarded for the 2018 period are expected to be made to the remaining Executive Board members in March 2019.

ATTENDANCE AT MEETINGS DURING 2018

The Committee comprises Oliver Jaster, Jens Schumann and Peter Steiner (Chairman). All Committee members attended all meetings during the course of the year. Meetings in the 2018 financial year were held on 25 January 2018, 9 March 2018 and 27 September 2018.



Peter Steiner
Chairman of the Chairman's Committee
20 March 2019

REMUNERATION AT A GLANCE

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

in €k	Fixed Pay			Variable pay					
Name	Base Pay	Taxable benefits	Short-term Incentives	Long-term Incentives[1]	Retirement and other benefits	Transitional Incentives[3]	**2018**	2017	Change %
Dr. Helmut Becker (Chief Executive Officer)	651	–	481	240	11	255	1,638	1,317	24%
Jonas Mattsson (Chief Financial Officer)	443	1	337	155	11	–	947	1,058	(10%)
Susan Standiford (Chief Operating Officer)[2]	288	1	–	–	8	–	297	1,047	(72%)

[1] Long-term Incentives relate to cash settled share-based payments where the performance period ended in 2018.
[2] Ms Standiford resigned from the Group during 2018. She received a loss of office payment of €611k which has not been included in the table above.
[3] Transitional incentive arrangements are discussed on page 48.

The Executive Board member's remuneration is recorded in note 21 to the Consolidated Financial Statements.

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 2016 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 current 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 current 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 2017, 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 (United Kingdom) 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 (STI's) 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 (LTIs) are paid at the end of each three-year interval and are based on the achievement of pre-determined Earnings per Share (EPS) and Total Shareholder Return (TSR) levels. This is currently under review.

As certain elements of Executive Director variable compensation are based on adjusted key performance indicators (such as normalised revenue and adjusted 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 adjusted normalised EBIT growth (STI incentive plans) and pre-determined Earnings per Share (EPS) and Total Shareholder Return (TSR) levels (LTI incentive plan).

REMUNERATION POLICY EFFECTIVE 1 JANUARY 2016

The 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).

The Long-term Incentives within the 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 remuneration policy, the mid-term incentive (MTI) scheme for Executive Directors was discontinued. Any benefits accruing to Executive Directors as part of their mid-term performance were split between the revised STI and LTI schemes.

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.

TRANSITION TO THE NEW REMUNERATION POLICY

As noted above, the MTI incentive scheme was discontinued as part of the new remuneration arrangements which were introduced on 1 January 2016. Transition payments for 2016 and 2017 were authorised by the Chairman's Committee for both the CFO and COO during 2015 to compensate them for the discontinuance of the scheme (CFO: £232,400 (£116,200 per annum) for 2016 and 2017; COO: £180,526 (£90,263 per annum) for 2016 and 2017). Under the same arrangements, the CEO became entitled to transition payments of €550,000 (2016: €196,429; 2017: €196,429; 2018: €157,142). The above amounts were based on 100% target achievement and were subject to change based on outturn for each financial year in question. Where payments are made in GBP, the Euro amounts have not been disclosed above, but have been disclosed in relevant reports when the EUR/GBP exchange rate at the date of payment has been known.

REMUNERATION POLICY TABLE

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 'Remuneration policy effective 1 January 2016' above.
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

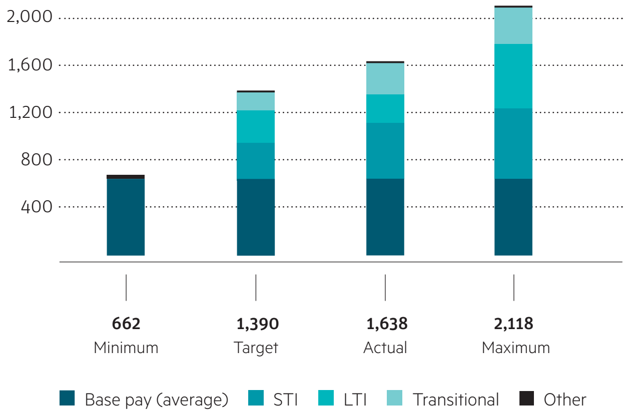
INDICATIVE REMUNERATION LEVELS RESULTING FROM POLICY

The graphs below represent the pay mix between the different elements of remuneration for the CEO, CFO and COO, 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.

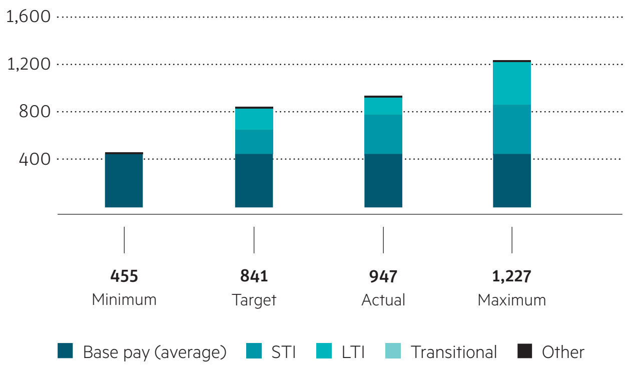
DR. HELMUT BECKER

in €k



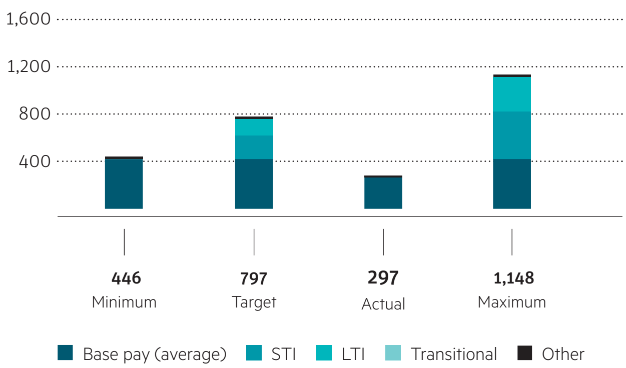
JONAS MATTSSON

in €k



SUSAN STANDIFORD

in €k

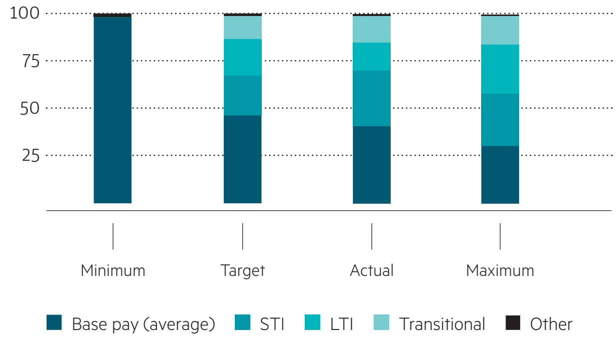


Percentage of total remuneration

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

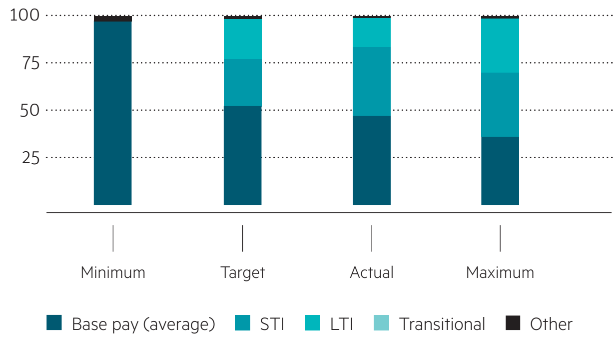
DR. HELMUT BECKER

in %



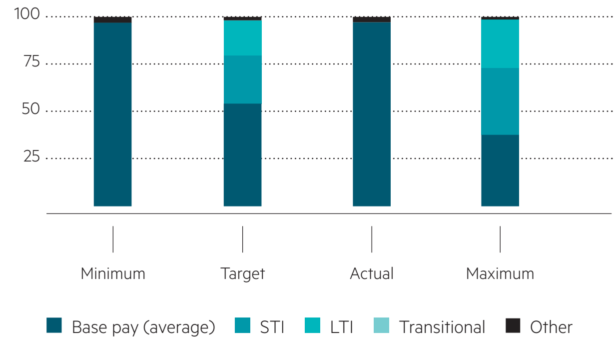
JONAS MATTSSON

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	Short-term Incentives	Long-term Incentives	Transitional Incentives	Retirement and other benefits	**Total**
in €k						
Minimum	651	–	–	–	11	**662**
Target	651	296	275	157	11	**1,390**
Actual	651	481	240	255	11	**1,638**
Maximum	651	592	550	314	11	**2,118**

Jonas Mattsson	Base Pay	Short-term Incentives	Long-term Incentives	Transitional Incentives	Retirement and other benefits	**Total**
in €k						
Minimum	443	–	–	–	12	**455**
Target	443	208	178	–	12	**841**
Actual	443	337	155	–	12	**947**
Maximum	443	415	357	–	12	**1,227**

Susan Standiford	Base Pay	Short-term Incentives	Long-term Incentives	Transitional Incentives	Retirement and other benefits	**Total**
in €k						
Minimum	433	–	–	–	13	**446**
Target	433	203	148	–	13	**797**
Actual[1]	288	–	–	–	9	**297**
Maximum	433	406	296	–	13	**1,148**

[1] Ms Standiford resigned from the Group during 2018. She received a loss of office payment of €611k which has not been included in the table above.

Long-term Incentives relate to cash settled share based payments where the performance period ended in 2018. For Dr. Helmut Becker and Jonas Mattsson, the final outcome of these long-term Incentives is known, however the amounts are subject to forfeiture until the incentives are received in March 2019. Long-term Incentives are only included in total remuneration when the performance conditions are substantially complete.

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 Company's 2019 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. Susan Standiford resigned from the Executive Board on 31 August 2018.

SUPERVISORY BOARD

Details of the Supervisory Board's commencement of service, expiry of service and the duration of their appointment are disclosed below:

Supervisory Board	Commencement of service	Expiry of service	Term
Peter Steiner	22 June 2016	2019 AGM	3 years
Oliver Jaster	22 June 2016	2019 AGM	3 years
Thorsten Hehl	22 June 2016	2019 AGM	3 years
Bernd Schiphorst	22 June 2016	2019 AGM	3 years
Jens Schumann	22 June 2016	2019 AGM	3 years
Leslie-Ann Reed	14 July 2017	2019 AGM	2 years

The Supervisory Board members have all been elected until the close of the AGM of members, receiving the reports and accounts for the year ended 31 December 2018.

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 €91.0k 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 €35.0k 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 2018

The following table sets out the total remuneration for Executive Directors for the year ended 31 December 2018:

Executive Directors	Year	Total salary and fees (a)	All taxable benefits (b)	STI award (c)	LTI award (d)	Retirement and other benefits (e)	Transitional awards (f)	Other payments – non-recurring (g)	Total
in €k									
Dr. Helmut Becker	2018	651	–	481	240[3]	11	255	–	**1,638**
Dr. Helmut Becker	2017	605	–	409	–	11	292	–	**1,317**
Jonas Mattsson	2018	443	1	337	155[3]	11	–	–	**947**
Jonas Mattsson	2017	396	–	264	136	11	213	38[1]	**1,058**
Susan Standiford	2018	288	1	–	–	8	–	–	**297**
Susan Standiford	2017	373	–	249	172	11	157	85[2]	**1,047**

[1] Mr Mattsson's other payments relate to reimbursement of tax incurred on relocation costs and a one-off supplement where the Group changed its taxable benefit in kind arrangement.
[2] Ms Standiford's other payments relate to a sign-on bonus and a one-off supplement where the Group changed its taxable benefit in kind arrangement. Ms Standiford resigned from the Group during 2018. She received a loss of office payment of €611k which has not been included in the table above.
[3] Long-term Incentives relate to cash settled share based payments where the performance period ended in 2018. For Mr Mattsson and Dr. Becker the final outcome of these long-term Incentives is known, however the amounts are subject to forfeiture until the incentives are received in March 2019.

METHODOLOGY

The different components of the updated remuneration policy effective from 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) All taxable benefits – this represents costs for health care and gym membership.

(c) 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 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.

(d) 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 = Profit attributable to the equity shareholders of the Company/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

   LTI's 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 three month after the end of the three-year period to which the LTI relates.

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

(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 related to the years 2016 to 2018 only and expire thereafter.

(g) Other payments – non recurring – this represents one off payments to directors.

PAYMENTS TO PAST DIRECTORS AND PAYMENTS FOR LOSS OF OFFICE

€611k (2017: nil) was paid to Susan Standiford for loss of office. This included €231k as a payment in lieu of the STI payment for 2018, €231k in lieu of the LTI awards for the period 2016–2018, and €149k one off payment. €111k was paid in 2018 and the remaining amounts were paid in January 2019.

NON-EXECUTIVE DIRECTORS' EMOLUMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

The following table sets out the total remuneration for non-executive Directors (members of the Supervisory Board) for the year ended 31 December 2018:

Supervisory Board	Year	Total fees	Out of pocket expenses	**Total**
in €k				
Peter Steiner	2018	186	9	**195**
Peter Steiner	2017	152	14	**166**
Oliver Jaster	2018	63	2	**65**
Oliver Jaster	2017	63	2	**65**
Thorsten Hehl	2018	60	4	**64**
Thorsten Hehl	2017	63	3	**66**
Bernd Schiphorst	2018	46	3	**49**
Bernd Schiphorst	2017	46	4	**50**
Jens Schumann	2018	63	5	**68**
Jens Schumann	2017	63	5	**68**
Leslie-Ann Reed	2018	126	0	**126**
Leslie-Ann Reed	2017	63	–	**63**
Andreas de Maizière	2018	–	–	**–**
Andreas de Maizière	2017	100	8	**108**

DIRECTORS' INTERESTS IN SHARES

Details of the Directors' share interests as at 31 December 2018, or at date of cessation of Directorship, are as follows:

Beneficially owned		2017	Changes	**2018**
Shares				
Dr. Helmut Becker[1]	CEO	1,392	6,924	**8,316**
Jonas Mattsson[1]	CFO	1,000	4,000	**5,000**
Susan Standiford[1]	COO	2,285	–	**2,285**
Oliver Jaster[1] (indirect)	Member of the Supervisory Board	857,334	–	**857,334**
Jens Schumann[1]	Member of the Supervisory Board	250,000	–	**250,000**
Peter Steiner	Member of the Supervisory Board	–	5,000	**5,000**

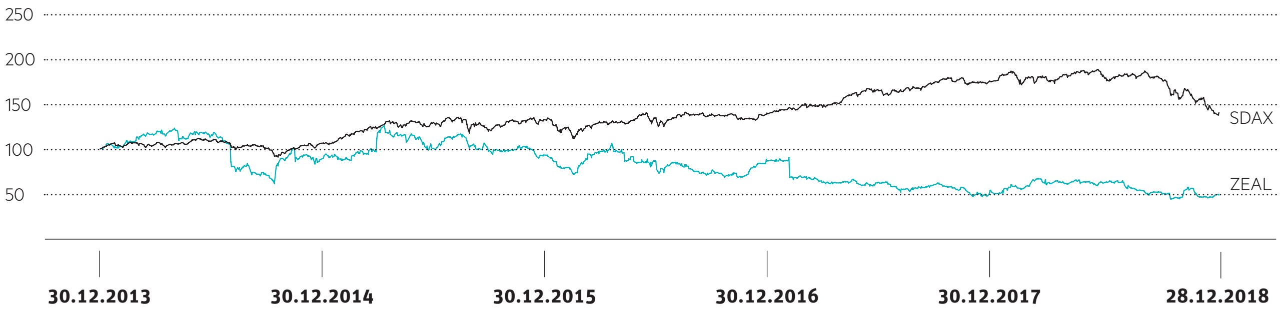
[1] *The following dividends were paid to each of the Directors during the 2018 financial year: Dr. Helmut Becker – €8,316 (2017: €1,392), Jonas Mattsson – €5,000 (2017: €1,000), Susan Standiford – €2,285 (2017: €2,285), Oliver Jaster – €857,334 (2017: €857,334), Jens Schumann – €250,000 (2017: €250,000) and Peter Steiner €5,000 (2017: nil).*

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 2018.

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.

	2014	2015	2016	2017	**2018**
in €k	Dr. Cornehl	Dr. Becker	Dr. Becker	Dr. Becker	Dr. Becker
Total remuneration	798	1,006	1,279	1,317	**1,638**
Short-term incentives (% of maximum)	40.0%	63%	70%	74%	**81%**
Mid-term incentives (% of maximum)	9.6%	18%	N/A	N/A	N/A
Long-term Incentives (% of maximum)	N/A	98%	50%	N/A	**44%**
Transitional incentives (% of maximum)	N/A	N/A	70%	74%	**81%**

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 2017 and the financial year ended 31 December 2018 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.

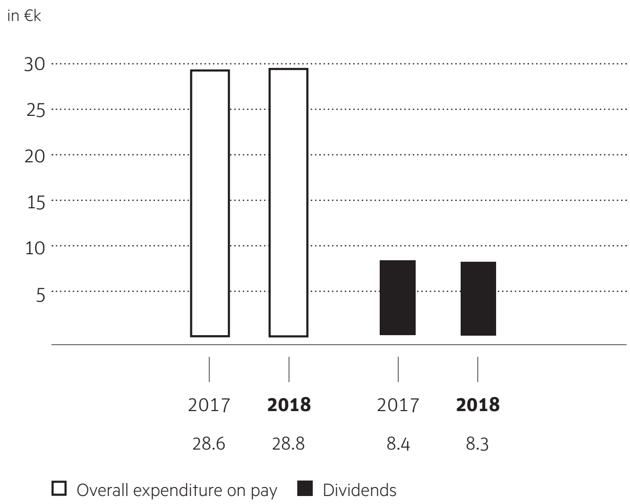
	% change in base salary 2018/2017	% change in annual bonus 2018/2017
CEO	8	18
All colleagues	6	(21)

The reduction in annual bonuses is due to an election made by some employees to convert part of their bonus into fixed salaries.

RELATIVE IMPORTANCE OF THE SPEND IN 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.



Peter Steiner
Chairman of the Supervisory Board and
Chairman of the Chairman's Committee

DIRECTORS' REPORT

The Directors of ZEAL Network SE present their Annual Report and audited financial statements for the year ended 31 December 2018. These financial statements have been prepared under IFRS (as adopted by the EU) and are available on the Company's website: http://zeal-network.co.uk.

GENERAL COMPANY INFORMATION

The Company was incorporated in Germany in 1999 and transferred its registration to the United Kingdom 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.

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 35.

BRANCHES OUTSIDE THE UK

The Group has three (2017: three) branches registered overseas: Lottovate Limited – Norway Branch, Lottovate Limited – German Branch, and eSailors 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 35.

On 19 November 2018, the Group announced its intention to acquire the entire issued share capital of Lotto24, an online broker of German state-licenced lotteries. Details of the proposed transaction and expected impact on the group are set out on pages 6 to 9.

DIVIDENDS

The Company declared a dividend of €1.00 per share on 23 November 2018 and paid it on 28 December 2018.

Following the announcement of the acquisition of Lotto24 the Executive Board and Supervisory Board are reviewing the Groups dividend policy.

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 Group did not perform any research and development activity during 2018. Further, no costs met the definition of development costs under IAS 38 'Intangible assets'.

POLITICAL DONATIONS AND POLITICAL EXPENDITURE

No political donations or political expenditure was incurred during 2018.

POST STATEMENT OF FINANCIAL POSITION EVENTS

In February 2019, the Group announced that the Lower Saxony Ministry of the Interior had granted Lotto24 a supplement to its existing brokerage permit. This supplement allows for lottery tickets to be sold via the domains of Tipp24 on behalf of the German state lottery companies. This means a significant condition of the completion of the public takeover offer of Lotto24 has now been satisfied.

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 2018, together with their biographies, are listed on pages 38 to 39 of this report.

During the year €611k (2017: nil) was paid to Susan Standiford for loss of office.

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 €1,197k. This authority will expire on 21 June 2021 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 45 to 53 of this report. Material interests in any contract of significance with any Group company during the year ended 31 December 2018 are set out in note 25 to the Consolidated Financial Statements.

DIRECTORS' THIRD-PARTY INDEMNITY PROVISIONS

Each of the Members of the Executive Board and Supervisory Board and the 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 serve fixed terms of office. At the end of a term of office subject to continued satisfactory performance members may stand for re-election.

EMPLOYMENT, ENVIRONMENTAL AND SOCIAL POLICIES

The Group's CSR report sets out the policies and can be found on pages 33 to 35.

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 27 to the Consolidated Financial Statements.

PURCHASE OF OWN SHARES

In March 2018, a final judgement was handed down by the Hamburg Regional Court in relation to a dispute originally raised in 2015 regarding the transfer of the registered office of ZEAL from Hamburg, Germany, to London, United Kingdom. As a result, qualifying shareholders who held shares in ZEAL on the date that the transfer was resolved became entitled to sell their shares back to ZEAL at a price which was set at €43.34 per share. A Resolution to approve the purchase of these shares by ZEAL was passed at an Extraordinary General Meeting on 27 July 2018. This has resulted in the acquisition of 43, 910 treasury shares at a price of €43.34 per share for a purchase price of €1,903k.

MAJOR SHAREHOLDINGS

Details of major shareholdings are provided on page 36 of this Annual Report.

SHARE CAPITAL

Details of the movements in the authorised and issued share capital are set out in note 19 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 33 to 35.

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 €132,993k in cash (2017: €92,052k) and financial assets of €12,894k (2017: €27,123k) 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 40 to 41 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 26 to 32 of this report.

TAKEOVERS DIRECTIVE

As at 31 December 2018, 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 19 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 19 to the Consolidated Financial Statements. The Company acquired 43,910 of its own shares during 2018. 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 45 to 53 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 27 June 2019 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 20 March 2019 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
20 March 2019
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 www.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
20 March 2019

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

OPINION

In our opinion:

- ZEAL Network SE's Group financial statements and Parent Company financial statements (the 'financial statements') give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2018 and of the Group's 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 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, and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements of ZEAL Network SE which comprise:

Group	Parent company
Consolidated income statement for the year to 31 December 2018	Statement of financial position as at 31 December 2018
Consolidated statement of comprehensive income for the year then ended	Statement of cash flows for the year then ended
Consolidated statement of financial position as at 31 December 2018	Statement of changes in equity for the year then ended
Consolidated statement of cash flows for the year then ended	Related notes A to K to the financial statements
Consolidated statement of changes in equity for the year the ended	
Related notes 1 to 28 to the consolidated financial statements including a summary of significant accounting policies	

The financial reporting framework that has been applied in the preparation of the Group and Parent Company financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Group and Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

CONCLUSIONS RELATING TO GOING CONCERN

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the Parent Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date of approval when the financial statements are authorised for issue.

OVERVIEW OF OUR AUDIT APPROACH

Materiality	■ Overall Group materiality of €1,260k, which represents 0.5% of the Group's stakes. Materiality for our 2017 audit was €1,206k, also based on 0.5% of the Group's stakes.
Audit scope	■ The components where we performed full or specific scope audit procedures accounted for 99.9% of the Group's stakes, 99.7% of the Group's revenue and 95.7% of the Group's total assets.
Key audit matters	■ German VAT ■ Legal and regulatory risk ■ Inappropriate revenue recognition

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
German VAT		
There is significant uncertainty as to whether VAT in Germany is due in respect of certain of the Group's products. This matter is subject to an ongoing tax dispute to determine whether VAT is due and on what basis it would be calculated. The amount could be material and there is a risk it is not appropriately provided for or disclosed in the financial statements. Management judgement is required to determine the likely outcome of the ongoing tax dispute in relation to this matter. For further details refer to the Audit Committee Report (page 42–44); Accounting policies (page 79–95); and Note 24 of the Consolidated Financial Statements (page 116–117)	We obtained and read the Group's correspondence with relevant tax authorities to understand the Group's position on this matter. We obtained and read the opinions of the Group's legal advisers on the likelihood of VAT in Germany being due, the basis for calculating any VAT, and the likely outcome of the ongoing tax dispute in relation to this matter. We discussed the above with management and its legal advisers, with support from our German tax specialists. Based on our experience of the Group and the betting and gaming industry, and after consideration of the correspondence referred to above and similar cases, we challenged the assumptions made by management. We assessed the appropriateness of amounts presented in the contingent liability disclosure in the financial statements and whether this disclosure was compliant with the requirements of IAS 37. **Scope of our procedures** We performed full scope audit procedures over all the Group's products that could be subject to VAT in Germany.	Management has performed sufficient, appropriate procedures to conclude on the likelihood of the Group's products being subject to VAT in Germany. We agreed with management's conclusions that whilst it is not considered probable the Group's products are subject to VAT in Germany, it is possible. An appropriate contingent liability disclosure has been made in the financial statements

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Legal and regulatory risk		
Betting and gaming is a highly regulated industry in which compliance with legislation and licensing requirements is critical to the continued operation of the business. The Group holds licences in a number of countries. The Group's cross border operations expose it to regulations across several jurisdictions. This regulation is developing on an ongoing basis and can often also be subject to interpretation. The Group is subject to various legal cases in Germany from lottery operators, challenging the Group's marketing activities and its right to operate its businesses. Given the legal cases relating to the Group's operations in Germany, management judgement is required to determine the impact on the viability of the business. Judgement is also required in calculating the amount of any provisions related to these cases. The Group's subsidiary Ventura24 S.L.U. (Ventura24), was subject to a legal case in Spain, resulting from a challenge by the Spanish Gambling Commission (DGOJ) that it required a licence to manage the online purchase of lottery products. The Spanish Supreme Court determined, in October 2018, that a licence is required. As such a licence has not been granted in the past and is unlikely to be granted in the future, Ventura24 closed its consumer facing business on 26 December 2018. The DGOJ has the right to start sanction proceedings against Ventura24 and potentially fine the Company for operating without a licence, and management judgement is therefore required to determine the likelihood of such proceedings and the appropriate provision for a potential fine. For further details refer to the Audit Committee Report (page 42–44); Accounting policies (page 79–95); and Note 18 of the Consolidated Financial Statements (page 110)	We understood the Group's processes and related controls for the identification and mitigation of legal and regulatory risks and assessed the design and operation of the controls. We read key correspondence and legal opinions received by the Group on legal and regulatory matters, including the Group's external lawyers' assessments on the legality of the Group's continuing operations, to understand any impact on the consolidated financial statements and the viability of the Group's operations. For the legal cases in Germany we involved our legal specialists to assist us in understanding and challenging management's judgements on the expected outcome. We involved our legal specialists in Spain to assist us in understanding the impact of the Supreme Court ruling. We assessed the appropriateness of any provisions recognised by the Group in relation to this risk. **Scope of our procedures** Our procedures to address this risk related to the legal cases in Germany from lottery operators and the legal case in Spain resulting from the challenge by the DGOJ.	We agree with management that there is no material impact on the Group's ability to continue its operations for a period of at least 12 months from the date of approval of the financial statements. Sufficient provisions were recognised by the Group and the disclosures in the financial statements are appropriate.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Inappropriate revenue recognition Total operating performance ('TOP'), comprising revenue and other operating income, is one of the Group's key performance indicators and is material to the financial statements. Whilst the vast majority of the Group's TOP involves little or no management judgement there is a risk that manual journal adjustments to revenue or other operating income could be recorded. There is also a risk that free bets are not appropriately classified as a deduction from revenue. For further details refer to the Audit Committee Report (page 42–44); Accounting policies (page 79–95); and Note 4 of the Consolidated Financial Statements (page 98–99).	We gained an understanding of and tested the processes and controls management has in place around the recording of revenue, including recording manual journal adjustments and classification of free bets. We gained an understanding of, with support from our IT specialists, the key IT controls over the recording of revenue. We tested the appropriateness of journal entries impacting revenue with a focus on unusual journals such as those posted manually or with unexpected account pairings. We identified and verified the classification, quantum and completeness of free bets given by the Group through testing of relevant financial and IT controls and through journal entry testing. We performed correlation data analysis over the Group's revenue journals to identify how much of the revenue is converted to cash, to isolate and assess any non-standard revenue transactions, and to assess if all revenue transactions have been recorded. **Scope of our procedures** We performed audit procedures over revenue in all of the Group's full scope components.	Based on the procedures we performed, we did not identify any evidence of material misstatements in the revenue recognised in the year and no matters in respect of inappropriate manual journals were identified.

OVERVIEW OF THE SCOPE OF OUR AUDIT

TAILORING THE SCOPE

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the Group and effectiveness of Group-wide controls, changes in the business environment and other factors such as the legal and regulatory environment when assessing the level of work to be performed at each entity.

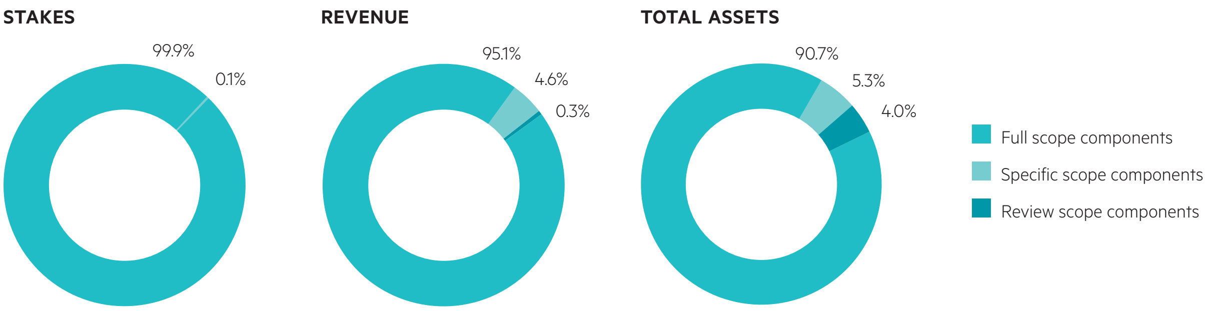
In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the 26 reporting components of the Group, we determined that six components covering activities within the United Kingdom and Germany, represented the principal business units within the Group.

Of the six components selected, we performed an audit of the complete financial information of four components ('full scope components') which were selected based on their size or risk characteristics. For the remaining two components ('specific scope component'), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

The reporting components where we performed audit procedures accounted for 99.9% (2017: 99.9%) of the Group's stakes, 99.7% (2017: 94.8%) of the Group's revenue and 96.0% (2017: 91.4%) of the Group's total assets. For the current year, the full scope components contributed 99.9% (2017: 99.9%) of the Group's stakes, 95.1% (2017: 94.8%) of the Group's revenue and 90.7% (2017: 89.6%) of the Group's total assets. The specific scope components contributed 0.0% (2017: 0.0%) of the Group's stakes, 4.6% (2017: 0.0%) of the Group's revenue and 5.3% (2017: 1.8%) of the Group's total assets. The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts tested for the Group.

The remaining 20 components together represent less than 1% of the Group's stakes. For these components ('review scope components'), we performed other procedures, including analytical review, testing of consolidation journals and intercompany eliminations and foreign currency translation recalculations to respond to any potential risks of material misstatement to the Group financial statements.

The charts aside illustrate the coverage obtained from the work performed by our audit team.



CHANGES FROM THE PRIOR YEAR

We have one additional specific scope component compared to the prior year. We brought this component into scope to ensure appropriate coverage of matters relating to the legal and regulatory risk described above.

INVOLVEMENT WITH COMPONENT TEAMS

All audit work on full and specific scope components performed for the purposes of the audit was undertaken by the Group audit team.

OUR APPLICATION OF MATERIALITY

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

MATERIALITY

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be €1,260k (2017: €1,206k), which is 0.5% (2017: 0.5%) of stakes. We used stakes as it is considered to be the primary area of focus of the Group's stakeholders.

We determined materiality for the Parent Company to be €1.260k (2017: €568k), which is 0.5% of the Group's stakes (2017: 1% of total assets). Group materiality is appropriate for the Parent Company as its primary activity is being the holding Company for the overall Group activities.

PERFORMANCE MATERIALITY

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 75% (2017: 75%) of our planning materiality, namely €945k (2017: €904k). We have maintained performance materiality at this percentage reflecting the results of our testing of the Group's systems and processes and historical audit findings

REPORTING THRESHOLD

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of €63k (2017: €60k), which is set at 5% of materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

OTHER INFORMATION

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

OPINIONS 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.

In our opinion, 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 and those reports have been prepared in accordance with applicable legal requirements

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which 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

RESPONSIBILITIES OF DIRECTORS

As explained more fully in the directors' responsibilities statement set out on page 61, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group and Parent Company's abilities to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or the Parent Company or to cease operations, or has no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

EXPLANATION AS TO WHAT EXTENT THE AUDIT WAS CONSIDERED CAPABLE OF DETECTING IRREGULARITIES, INCLUDING FRAUD

The objectives of our audit, in respect to fraud, are: to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant frameworks which are directly relevant to specific assertions in the financial statements are those that relate to the reporting framework (IFRS and the Companies Act 2006) and the relevant tax compliance regulations in the jurisdictions in which the Group operates. In addition, we concluded that there are certain significant laws and regulations which may have an effect on the determination of the amounts and disclosures in the financial statements being the listing requirements of the Frankfurt Stock Exchange, online gaming regulation in the jurisdictions in which the Group operates and money laundering regulations.
- We understood how ZEAL Network SE is complying with those frameworks by making enquiries of management and those responsible for legal and compliance procedures. We corroborated our enquiries through our review of board minutes, papers provided to the Audit Committee and correspondence with regulatory bodies.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur by meeting with management from various parts of the business to understand where it considered there was susceptibility to fraud. We also considered performance targets and their influence on efforts made by management to manage earnings or influence the perceptions of analysts. We considered the programs and controls that the Group has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how senior management monitors those programs and controls. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk.

- Based on this understanding we designed our audit procedures to identify non-compliance with relevant laws and regulations. Our procedures involved journal entry testing, with a focus on manual consolidation journals and journals indicating large or unusual transactions, taking into account our understanding of the business; enquiries of those at all full and specific scope locations responsible for legal and compliance procedures, Group management and all full and specific scope management; and focused testing, as referred to in the key audit matters section above.
- The Group operates in the gaming industry which is a highly regulated environment. The senior statutory auditor reviewed the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of a specialist where appropriate.
- As the gaming industry is highly regulated, we have obtained an understanding of the regulations and the potential impact on the Group and in assessing the control environment we have considered the compliance of the Group with these regulations. These audit procedures included reading correspondence between the Group and regulatory bodies.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

OTHER MATTERS WE ARE REQUIRED TO ADDRESS

- Ernst and Young Germany was appointed by the Company on 17 March 2003 to audit the financial statements for the year ending 31 December 2002 until 18 November 2014, when Ernst & Young UK was appointed to audit the 31 December 2014 year end and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments since ZEAL Network SE became a Public Interest Entity for Ernst & Young UK is 5 years (a combined total of 13 years for Ernst & Young Germany and Ernst & Young UK).
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company and we remain independent of the Group and the Parent Company in conducting the audit.
- The audit opinion is consistent with the additional report to the Audit Committee.

USE OF OUR REPORT

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.

Cameron Cartmell
(Senior statutory auditor)
for and on behalf of Ernst & Young LLP
Statutory Auditor
London
20 March 2019

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

in €k	Note	**2018**	2017
Revenue	4	154,751	134,295
Other operating income	5	4,901	6,951
Total operating performance (TOP)		**159,652**	**141,246**
Personnel expenses	21	(28,837)	(28,630)
Other operating expenses	6	(83,690)	(85,758)
Marketing expenses		(19,666)	(19,131)
Direct costs of operations		(44,323)	(43,365)
Other costs of operations		(19,701)	(23,262)
Exchange rate differences		617	(422)
Amortisation/depreciation on intangible assets and property, plant and equipment		(1,147)	(1,255)
Result from operating activities before Exceptional items (Adjusted EBIT)		**46,595**	**25,181**
Exceptional items	7	(8,288)	–
Result from operating activities (EBIT)		**38,307**	**25,181**
Finance income	8	331	385
Finance costs	8	(204)	(335)
Loss on financial assets	15	(449)	–
Result from financing and investing activities		**(322)**	**50**
Profit before income tax		**37,985**	**25,231**
Income tax expense	9	(11,322)	(8,053)
Profit attributable to the equity shareholders of the Company		**26,663**	**17,178**
Earnings per share for profit attributable to ordinary equity holders of the Company		€	€
Basic and diluted earnings per share (in €/share) [1]	19	3.18	2.04

[1] In line with the requirements of IFRS, the 2017 EPS has been restated from €2.05 to €2.04 as a result of the purchase of treasury shares by the Group in July 2018. Further details of the purchase can be found in note 19.

The above Consolidated Income Statement should be read in conjunction with the accompanying notes 1 to 28.

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

in €k	Note	2018	2017
Profit for the year		**26,663**	**17,178**
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Changes in fair value of financial assets at fair value through other comprehensive income, net of tax	13	145	–
Items that may be reclassified to profit or loss in subsequent periods			
Changes in the fair value of available-for-sale financial assets, net of tax		–	225
Exchange differences on translation of foreign operations, net of tax		18	40
Other comprehensive income for the year, net of tax		**163**	**265**
Total comprehensive income attributable to the equity shareholders of the Company		**26,826**	**17,443**

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes 1 to 28.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER

		2018	2017
ASSETS in €k	Note		
Non-current assets			
Property, plant and equipment	10	2,425	2,607
Intangible assets	11	301	510
Deferred tax assets	12	627	38
Other investments	13	3,433	3,041
Other assets and prepaid expenses		146	438
Total non-current assets		**6,932**	**6,634**
Current assets			
Income tax receivable		39	474
Trade receivables and other current assets	14	16,354	14,828
Financial assets	15	12,894	27,123
Cash and pledged cash	15	132,993	92,052
Total current assets		**162,280**	**134,477**
TOTAL ASSETS		**169,212**	**141,111**

EQUITY & LIABILITIES in €k	Note	2018	2017
Non-current liabilities			
Other liabilities	16	1,758	1,765
Provisions	18	2,160	–
Total non-current liabilities		**3,918**	**1,765**
Current liabilities			
Trade payables		3,425	5,510
Other liabilities	16	25,424	23,098
Financial liabilities		106	106
Deferred income	17	3,098	2,105
Income tax liabilities		5,702	1,074
Provisions	18	4,341	837
Total current liabilities		**42,096**	**32,730**
Equity			
Subscribed capital	19	8,385	8,385
Share premium	19	21,578	21,578
Treasury shares	19	(1,903)	–
Other reserves	19	227	(560)
Foreign currency translation reserve	19	201	183
Retained earnings	19	94,710	77,030
Total equity		**123,198**	**106,616**
TOTAL EQUITY & LIABILITIES		**169,212**	**141,111**

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes 1 to 28. These financial statements were approved by the Board of Directors on 20 March 2019 and were signed on its behalf by:

Dr. Helmut Becker
Member of Executive Board

Jonas Mattsson
Member of Executive Board

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

	2018	2017
in €k		Restated[1]
Profit from continuing operations before tax	37,985	25,231
Adjustments for		
Depreciation and amortisation of non-current assets	1,147	1,255
Net loss on sale of non-current assets	–	1
Finance income	(331)	(385)
Finance costs	204	335
Other non-cash changes [2]	240	44
Changes in		
Trade receivables and other current assets	(1,234)	(1,475)
Trade payables	(2,085)	458
Other liabilities	2,319	119
Financial liabilities	–	(17)
Deferred income	993	(146)
Provisions	5,664	501
Interest received	331	385
Interest paid	(204)	(335)
Income taxes paid	(6,827)	(12,819)
Cash flow from operating activities	**38,202**	**13,152**

[1] Comparative information has been restated. Further details can be found in note 2.23
[2] Other non-cash changes include foreign exchange movements of approximately €383k in 2018.

in €k	2018	2017 Restated[1]
Cash flow from investing activities		
Acquisition of intangible assets	(44)	(236)
Acquisition of property, plant and equipment	(722)	(1,436)
Proceeds from the sale of property, plant and equipment	–	4
Payments for acquisition of investment	(247)	(1,843)
Short-term loan	–	3,000
Income from sale of investments in equity funds	6,567	–
Net cash outflow from investing activities	**5,554**	**(511)**
Cash flow from financing activities		
Purchase of treasury shares	(1,903)	–
Dividends paid to the Company's shareholders	(8,341)	(8,385)
Net cash outflow from financing activities	**(10,244)**	**(8,385)**
Net increase in cash, pledged cash and financial assets	33,512	4,256
Cash, pledged cash and financial assets at the beginning of the year	112,375	108,119
Cash, pledged cash and financial assets at the end of the financial year	**145,887**	**112,375**
Composition of cash, pledged cash and financial assets		
Cash and pledged cash	132,993	92,052
Financial assets	12,894	20,323
Cash, pledged cash and financial assets at the end of the financial year	**145,887**	**112,375**

[1] Comparative information has been restated. Further details can be found in note 2.23

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes 1 to 28.

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

	Subscribed capital	Share premium	Treasury shares	Other reserves	Retained earnings	Currency translation adjustments	**Total equity**
in €k							
Balance at 1 January 2017	**8,385**	**21,578**	**–**	**(785)**	**68,237**	**143**	**97,558**
Profit for the year	–	–	–	–	17,178	–	17,178
Other comprehensive income	–	–	–	225	–	40	265
Total comprehensive income for the year	**–**	**–**	**–**	**225**	**17,178**	**40**	**17,443**
Transactions with owners in their capacity as owners							
Dividends paid	–	–	–	–	(8,385)	–	(8,385)
As at 31 December 2017	**8,385**	**21,578**	**–**	**(560)**	**77,030**	**183**	**106,616**
Reclassification on adoption of IFRS 9	–	–	–	642	(642)	–	–
Balance at 1 January 2018	**8,385**	**21,578**	**–**	**82**	**76,388**	**183**	**106,616**
Profit for the year	–	–	–	–	26,663	–	26,663
Other comprehensive income	–	–	–	145	–	18	163
Total comprehensive income for the year	**–**	**–**	**–**	**145**	**26,663**	**18**	**26,826**
Transactions with owners in their capacity as owners							
Treasury shares acquired	–	–	(1,903)	–	–	–	(1,903)
Dividends paid	–	–	–	–	(8,341)	–	(8,341)
As at 31 December 2018	**8,385**	**21,578**	**(1,903)**	**227**	**94,710**	**201**	**123,198**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes 1 to 28.

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 United Kingdom in February 2014 under the Company Number SE000078. The Company's shares are listed in the Prime Standard segment of the Frankfurt Stock Exchange.

The Consolidated Financial Statements of ZEAL Network SE (collectively 'ZEAL Group' or 'the Group') for the year ended 31 December 2018 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 20 March 2019.

The date of the Statement of Financial Position is 31 December 2018. The financial year ended 31 December 2018 covers the period from 1 January 2018 to 31 December 2018.

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 financial assets and other investments as described in the accounting policies below.

The comparative Statement of Cash Flows has been restated. Details can be found in note 2.23. The Group has initially adopted IFRS 15 Revenue from contracts with customers and IFRS 9 Financial Instruments from 1 January 2018. The Group has taken the exemption not to restate prior periods and further details of the transition can be found in notes 2.24 and 2.25. Financial assets, previously held to maturity, on adoption of IFRS 9 are held at amortised cost. Financial assets, previously held as available for sale, on adoption of IFRS 9 are held at fair value through profit or loss.

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 held €132,993k in cash and €12,894k in financial assets at the year-end (2017: €92,052k and €27,123k in cash and financial assets, 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 Directors have considered the Brexit options being contemplated in the UK parliament and do not consider any of them to have an impact on the ability of the Group to continue in operation for the foreseeable future.

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 15 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

The following standards, interpretations and amendments apply for the first time to the financial reporting period commencing on 1 January 2018 but have had no material impact on the consolidated results of operations or financial position of the Group:

- IFRS 2, 'Classification and measurement of share-based payment transactions' is effective from 1 January 2018.
- Annual improvement processes (AIP) 2014–2017 to IFRS 1 'First-time Adoption of International Financial Reporting Standards' concerning deletion of short-term exemptions for first-time adopters is effective from 1 January 2018.
- IFRIC 22, 'Foreign Currency Transactions and Advance Consideration' is effective from 1 January 2018.

The following standards, interpretations and amendments apply for the first time to the financial reporting period commencing on 1 January 2018 and have been adopted by the Group:

- IFRS 15, 'Revenue from contracts with customers'
- IFRS 9, 'Financial Instruments'

Further details on the transition to IFRS 15 and IFRS 9 can be found in notes 2.24 and 2.25, respectively.

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 2019:

- IFRIC Interpretation 23, 'Uncertainty over Income Tax Treatments' is effective from 1 January 2019.
- IFRS 16, 'Leases' is effective from 1 January 2019.

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 16, 'Leases'.

Nature of change

IFRS 16 was issued in January 2016. It will result in almost all leases, for a lessee, being recognised in 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 has adopted the new standard on the required effective date using the modified retrospective method.

Preliminary Assessment

The standard will affect the accounting for the Group's operating leases. As at the reporting date, the Group had non-cancellable lease commitments of €11,344k (2017: €12,311k), disclosed in note 24 to the Consolidated Financial Statements. On initial adoption, the majority of operating leases will be disclosed in the Statement of Financial Position creating a right of use asset and a lease liability. An adjustment will be posted to retained earnings at 1 January 2019 to reflect the cumulative effect of initial adoption of IFRS 16.

At transition, lease liabilities will be measured at the present value of the remaining lease payment, discounted at the Group's incremental borrowing rate as at 1 January 2019. Right of use assets will be measured at their carrying amount as if IFRS 16 had been applied since the lease commencement date, discounted using the lessee's incremental borrowing rate at the date of initial application.

The Group will apply the following practical expedients when applying IFRS 16 to leases previously classified as operating under IAS 17 and IFRIC 4:

- Applying a single discount rate to a portfolio of leases with similar characteristics.
- Applying the exemption not to recognise right of use assets and liabilities for leases with less than 12 months of lease term remaining at date of initial application
- Excluding initial direct costs from measuring the right of use asset at the date of initial application
- Using hindsight when determining the lease term if the contract contains options to extend or terminate the lease.
- Transitioned to IFRS 16, leases which were previously identified under IAS 17 and IFRIC 4, only.

Some commitments are covered by the short-term and low-value lease recognition exemptions and will continue to be held off balance sheet.

On transition to IFRS 16, the Group will recognise approximately €6,935k of right of use assets and approximately €8,344k of lease liabilities, recognising the difference in retained earnings.

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 within the next financial year, 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 due to being particularly subject to the exercise of judgement.

Judgements in applying the Group's accounting policies

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 the Company 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.

Insurance Linked Security ('ILS')

The Group entered into a new ILS vehicle, Hoplon III ('Hoplon'), in 2018. Judgement is required to determine if the Group has control over Hoplon and should consolidate the results of operations into its financial statements. The conclusions drawn by the Directors are described in detail in section 2.4.

Exceptional items

Management uses judgement to determine items to be classified as exceptional to enable a better understanding of the underlying financial performance of the Group. Further details can be found in note 7.

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 certain 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 and tax 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 and other duty positions taken by the Group are routine and not subjective. However, judgement has been exercised by the Directors in certain specific tax and duty 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 German 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 liability has been recorded in the Consolidated Financial Statements. Based on a thorough legal assessment, which included a review of the existing legal framework and 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 24 to the Consolidated Financial Statements.

Austrian Gaming Duty

In January 2011, gaming duty became payable on a point of consumption basis in Austria. There is judgement over whether the correct Austrian gaming duty should be payable based on 4% of stakes from 1 January 2017 (2% prior to 1 January 2017), which is the rate for 'betting' or 40% of gross gaming revenue, which is the rate for 'gaming' activities.

Previously, the Directors considered the most likely outcome was that the duty would be due based on stakes and accrued on this basis. However, correspondence with the Specialist Division (Fachbereich) of the Tax Office for Duties, Transfer Taxes and Gaming (the 'Austrian Tax Office') now indicates that activities in Austria are likely to be classified as gaming. The Austrian Tax Office argues that since lotteries qualify as gaming, bets on the outcome of lotteries also qualify as gaming. This correspondence does not present legally binding statement of the view of the Austrian Tax Office. Such a legally binding view may follow in the form of a tax assessment. However, the Directors now consider that it is probable that an assessment will be received on the basis of gaming activities and have begun to provide on the basis that ZEAL will be assessed at 40% of gross gaming revenue. As a result, a €1.9m provision has been recorded in 2018 (note 18). This amount is provided for based on advice from legal professionals, management's interpretation of gaming duty laws and the likelihood of settlement.

Estimates and assumptions

Fair value of level 3 investments

At each reporting period, the fair value of the investments in Omaze and PMP is calculated. A discounted cash flow model is utilised to determine the fair value (enterprise value) of the underlying businesses that ZEAL has invested in. The fair value of ZEAL's share of each business has been measured using an option pricing model. The option pricing model allocates the enterprise value of the investment amongst the individual shareholders. Key estimates and assumptions in the model include; the discount rate, billings growth rate and the growth in margin. Further details can be found in note 13.

As investments in The Dream Makers and Wshful were made in 2018, the fair value of these investments is considered to be equal to the cash paid to acquire the investments.

Provisions for litigation

At each reporting period, management is required to estimate the expected outflow of cash resulting from the Group's legal cases. If it is considered probable (i.e. greater than 50%) that a case will be lost then management will estimate the expected costs to be incurred and will record a provision. The determination of if it is probable a case will be lost may be made in conjunction with external legal professionals. The expected costs to be incurred are generally a range, dictated by gambling law or courts of law and management will estimate what percentage of these costs to provide if it is determined that it is probable a case will be lost. The estimate is based on experience from similar cases and the information received from the courts and/or regulator or other third party involved in the case. Details of the year-end provisions for litigation can be found in note 18.

2.4 BASIS OF CONSOLIDATION

The Consolidated Financial Statements include the financial information of the subsidiaries owned by the Company:

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 SE with the exception of the Company's interests in myLotto24 Limited and its subsidiary (full details are set out within the Subsidiaries section note 20).

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 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 Limited and Tipp24 Services Limited.
- The owner of the majority of voting rights receives an 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 ILS 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 does not meet the definition of a structured entity and therefore the IFRS 12 disclosures requirement have not been applied. The ILS vehicle is not consolidated as the relevant criteria around control under IFRS 10 are not met.

In 2011, an ILS vehicle was created to partially transfer the Group's jackpot payment risk to the capital market, with the ILS cover placed with institutional investors outside the Group. In 2014 and again in 2017, the Group renewed the transaction when it matured with no fundamental differences. The new ILS was effective from 2018 and is called Hoplon III. The Group has no power over the ILS and has no exposure, or rights, to variable returns from its involvement as they rest with third party investors.

In forming the view that the relevant IFRS 10 criteria are not met, the Directors have considered the following points:

- The Group has no voting rights or potential voting rights, or the ability to appoint, reassign or remove members of the key management personnel of the ILS vehicle. In addition the Group has no rights to direct relevant activities which it could subsequently benefit from.
- The Group does not have any rights to returns from the ILS vehicle in the form of earnings, and has no rights to any of ILS vehicle assets on liquidation.
- The exposure to and right to variable returns is limited to the Preference Shareholders of the ILS vehicle, who are not related parties to the Group.

Based on the Directors assessment the Group does not control the ILS vehicle and therefore does not consolidate its results in its own financial statements, the Directors consider the transaction to be insurance cover, in consideration for which the Group has agreed to pay to the ILS vehicle premiums in accordance with the agreement between the parties.

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 Group'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 a current liability 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 financial statements'.

2.6 REVENUE

The Group has the following revenue streams: secondary lottery revenue, revenue generated from Instant Win Games, revenue generated from commission and fees.

Following the adoption of IFRS 9 on 1 January 2018, secondary lottery revenue and revenue generated from Instant Win Games is accounted for under this standard. In the comparative period it was accounted for under IAS 39. Further detail of the transition can be found in note 2.25.

Revenue generated from commission and fees is accounted for under IFRS 15. The Group transitioned to IFRS 15 on 1 January 2018. The Group has chosen to apply IFRS 15 using the cumulative effect method and therefore the comparative information has not been restated and continues to be reported under IAS 18. Further detail of the transition can be found in note 2.24.

(I) Secondary lottery revenue

Accounting policy prior to 1 January 2018

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 Statement of Financial Position date, but which are intended for games whose draw results are not available until after the Statement of Financial Position 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.

Accounting policy post 1 January 2018

Following adoption of IFRS 9, management has reviewed the revenue recognition policy and no adjustments are required.

(II) Revenue generated from Instant Win Games

Accounting policy prior to 1 January 2018

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, less free bets, placed by the customers less amounts won.

Accounting policy post 1 January 2018

Following adoption of IFRS 9, management has reviewed the revenue recognition policy and no adjustments are required.

(III) Revenue generated from commissions and fees
Accounting policy prior to 1 January 2018

Revenue also results from commissions and fees, which the Group 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. Where advanced payments are received from 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.

Accounting policy post 1 January 2018

Revenue also results from commissions and fees, which the Group receives for placing bets on behalf of customers. Revenue is recognised at the point in time when control of the goods or services are transferred to the customer. This occurs 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. Where advanced payments are received from customers for subscriptions, payments received are deferred and the related revenue is only recognised at the point in time, when the lottery ticket information has been passed on to the lottery organiser and confirmation of receipt of the information has been obtained.

Under IFRS 15, the Group is considered to be agent based on the following points:

- another third party is responsible for fulfilling the contract and this is stipulated in the terms and conditions agreed with the customer,
- the book making risk is held by another party,
- the Group does not have discretion in establishing prices, and
- the revenue received is in the form of fees and commission.

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 EuroMillions 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 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.

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 Statement of Financial Position 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 Statement of Financial Position 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 Statement of Financial Position 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. 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. Where it is probable that future economic benefits will flow as a result of a good or service provided and the cost can be reliably measured, the costs are capitalised and amortised over the duration of the expected economic benefit. Non-deductible VAT is included within other operating expenses as opposed to being included in the attributable cost line item.

2.10 EXCEPTIONAL ITEMS

To improve the understanding of the Group's financial performance, items which are not considered to reflect the underlying performance are presented as exceptional items. Items classified as exceptional are disclosed separately due to their size or nature to enable a better understanding of year on year performance. These include, but are not limited to, significant impairments, significant restructuring of the activities of an entity including employee associated severance costs, acquisition and disposal related transaction costs, integration costs, and synergy delivery costs, as these are irregular in nature.

2.11 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. Translation differences on non-monetary assets such as equity investments classified as available for sale assets are included 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 Statement of Financial Position date. The resultant translation differences are 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, or foreign exchange on tax balances, which are recorded in the income tax expense line item.

2.12 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 that are directly attributable to the development of the asset. Capitalised computer software, licence and development costs are amortised over their useful economic lives of between three and five years.

(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 expenditure can be reliably measured;
- where an outcome can be assessed with reasonable certainty (in terms of feasibility and commerciality);
- when expected revenue exceeds 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.

2.13 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is 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 carrying value of the asset and is recognised in the income statement.

(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. 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

Leasehold improvements are depreciated over the lower of the lease term and 3-12 years.

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.

2.14 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.

2.15 OTHER INVESTMENTS

Prior to the adoption of IFRS 9, other investments were recognised at fair value net of any impairment losses. Where the fair value of an investment could not be reliably measured, then it was measured at cost. Cost included expenditure that was directly attributable to the acquisition of the investment. Subsequent costs were 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 would flow to the Group and the cost could be measured reliably.

Other investments are held as long term strategic investments, as such following adoption of IFRS 9, on 1 January 2018, management elected to hold them at fair value through other comprehensive income (FVOCI).

Each investment is initially recognised at fair value plus transaction costs. A discounted cash flow model is utilised to determine the fair value (enterprise value) of the underlying businesses that ZEAL has invested in. The fair value of ZEAL's share of each business has been measured using an option pricing model. The option pricing model allocates the enterprise value of the investment amongst the individual shareholders. Gains and losses on disposal will be recognised in Other Comprehensive Income (OCI).

2.16 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.

2.17 BUSINESS COMBINATIONS

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 exited 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 re-measured 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.

2.18 FINANCIAL ASSETS AND LIABILITIES

The Group adopted IFRS 9 on 1 January 2018. No prior period restatements have been made and the comparative period continues to be prepared under IAS 39. As such the accounting policies for the current and comparative period, are disclosed below.

Accounting policy prior to 1 January 2018

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 Statement of Financial Position 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 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 that, require little or no initial investment and are settled in the future.

These include derivatives embedded in host contracts. An embedded derivative 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 Statement of Financial Position, 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 Statement of Financial Position 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, 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.

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.

Cash, cash equivalents and pledged cash

In the Consolidated Statement of Financial Position, 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.

(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 Statement of Financial Position 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, other payables, and borrowings.

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 Statement of Financial Position, depending on when the obligation to settle will be realised.

Accounting policy post 1 January 2018

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

i) Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through OCI, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables the Group initially measures a financial asset at its fair value plus transaction costs. Trade receivables are measured at the transaction price determined under IFRS 15.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in three categories:

(I) Fair value through profit or loss (FVPL)

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

Financial assets

Financial assets include investments in fixed income funds and equity funds. Financial assets have cash flows that are not solely payments of principal and interest and as such are classified and measured at fair value through profit or loss. These are initially recognised at fair value. Movements in fair value are recognised in gains/losses from financial assets within the income statement.

(II) Financial assets at amortised cost

The Group measures financial assets at amortised cost if both of the following conditions are met:

1) The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and
2) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Trade receivables

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

Cash, cash equivalents and pledged cash

In the Consolidated Statement of Financial Position, cash and cash equivalents includes cash in hand, pledged cash, and bank deposits repayable on demand and other short-term highly liquid investments with original maturities of three months or less.

(III) Equity instruments at fair value through other comprehensive income (FVOCI)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under *IAS 32 Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

Other investments

The Group elected to classify irrevocably its non-listed equity investments, held for long term strategic purposes, under this category. As the investments are not traded on active markets a discounted cash flow model is utilised to determine the fair value (enterprise value) of the underlying businesses that ZEAL has invested in. The fair value of ZEAL's share of each business has been measured using an option pricing model. The option pricing model allocates the enterprise value of the investment amongst the individual shareholders

Impairment of financial assets

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables, the Group applies a simplified approach to calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The simplified approach uses the amounts historically written off for each customer, adjusted for forward-looking factors and the economic environment and uses this as the basis for the ECL. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date.

ii) Financial liabilities

Financial liabilities held at amortised cost include trade payables, accruals, and other payables, and borrowings.

Trade payables

Trade payables are initially recognised at fair value and subsequently remeasured at amortised cost. Trade payables are analysed between current and non-current liabilities on the face of the Statement of Financial Position, depending on when the obligation to settle will be realised.

2.19 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 Network SE 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.

Treasury shares are a repurchase of the Company's own equity instruments and 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 Statement of Financial Position date are not recognised as there is no present obligation at the Statement of Financial Position date.

2.20 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.

2.21 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 2018 are included in note 24 to the consolidated financial statements.

2.22 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, cash settled share based payments 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 liability where there is a present obligation (legal or constructive) that has arisen as a result of a past event.

(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.

(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 award at the Statement of Financial Position 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 phantom share options that are likely to vest.

2.23 PRIOR PERIOD RESTATEMENT

In preparing these financial statements, it was determined that the financial asset balance contains investment in both fixed income funds and equity funds. Under IAS 7, equity instruments cannot be classified as cash and cash equivalents. This has resulted in the cash flow statement for the year ended 31 December 2017 being restated. The Group held €6,800k and €6,546k of equity funds at 31 December 2017 and 31 December 2016, respectively.

The opening cash and cash equivalents balance in the 2017 Statement of Cash Flows has been reduced from €114,665k to €108,119k to reflect the removal of the 31 December 2016 equity funds. The financial assets balance, in the consolidated statement of cash flows, has been reduced from €27,123k to €20,323k to reflect the removal of the 31 December 2017 equity investments. Other non-cash charges have been restated from €298k to €44k to remove the fair value movement in equity funds in the period.

There is no impact on the classification of financial assets in the Consolidated Statement of Financial Position or the Consolidated Income Statement, as a result of this restatement.

2.24 IFRS 15, 'REVENUE FROM CONTRACTS WITH CUSTOMERS', TRANSITION

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 supersedes all revenue recognition requirements under IAS 18 and IAS 11. 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.

Assessment

During 2017, the Directors performed an assessment of the impact that the adoption of IFRS 15 would have on the Group's Consolidated Financial Statements.

Revenue generated from secondary lottery betting and Instant Win Games

For secondary lottery betting and instant win game products IFRS 15 will not have any impact on the recognition or timing of the Group's revenue recognition. All material revenue streams are accounted for under IFRS 9 rather than IFRS 15.

Revenue generated from commissions and fees

Ticket fee income is recognised where an affiliate entity of the Group acts an agent of individual customers brokering bets on the outcome of lotteries and Instant Win Games. Under IFRS 15, the Group will continue to recognise revenue as an agent based on the net fair value of consideration received or receivable. The ticket fee will be recognised at the point in time when the bets have been brokered, the lottery ticket information has been sent to the bookmaker and confirmation of receipt of the information has been received. As a result, there is no change in the quantum or timing to be recognised under IAS 18 and IFRS 15.

For the Lottovate segment revenue is primarily recognised from commissions, which the Group receives for placing bets on behalf of customers. Under IFRS 15, the Group will continue to recognise revenue as an agent based on the net fair value of consideration received or receivable. Revenue will continue to be recognised at the point in time when the bets have been made, the lottery ticket information is passed on to the lottery organiser and confirmation of receipt of the information has been received. There is no change in the quantum or timing of revenue recognised under IFRS 15 as opposed to IAS 18.

Transition

The Group has three revenue streams: secondary lottery revenue, revenue generated from Instant Win Games, and revenue generated from commission and fees. The majority of the Groups revenue is generated from secondary lottery and Instant Win Games. This revenue is accounted for under IFRS 9.

The Group adopted the new standard on 1 January 2018 and transitioned under the modified retrospective approach, for revenue generated from commission and fees. For completed contracts, the Group has not restated contracts that began and ended in the same annual reporting period or contracts completed prior to the beginning of the earliest period presented. No other practical expedients have been applied.

No transition adjustments are required as revenue recognition is consistent between IAS 18 and IFRS 15. In line with the requirements of IFRS 15, note 4 has been updated to disclose the receivables, contract assets and contract liabilities from contracts with customers.

2.25 IFRS 9, 'FINANCIAL INSTRUMENTS', TRANSITION

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 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.

Transition

The Group has initially adopted IFRS 9, 'Financial Instruments' from 1 January 2018.

The Group has taken an exemption not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements. There were no differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 as at 1 January 2018. On adoption, other reserves, within equity, was reclassified to retained earnings. The information presented for 2017 does not generally reflect the requirements of IFRS 9 but rather those of IAS 39.

Details of the significant changes and quantitative impact of the changes are set out below:

1. Classification and measurement

Under IAS 39, the Group accounted for its investment in PMP at historical cost. The investment in Omaze was held at fair value through profit or loss. On adoption of IFRS 9, all investments were remeasured at fair value in accordance with IFRS 13. As the investments are not held for trading, the Group has elected irrevocably to present gains and losses on other investments in OCI. Under IFRS 9 all other investments are held at fair value through OCI and measured in accordance with IFRS 13.

A discounted cash flow model is utilised to determine the fair value (enterprise value) of the underlying businesses that ZEAL has invested in. The fair value of ZEAL's share of each business has been measured using an option pricing model. The option pricing model allocates the enterprise value of the investment amongst the individual shareholders.

On adoption of IFRS 9, the Group has classified short term financial assets (investments in fixed income funds and equity funds) previously held as available-for-sale, as investments held at fair value through profit or loss (FVPL). Under IAS 39, all gains and losses on disposal of financial assets were recognised in OCI and recycled to the income statement on disposal. Further under IFRS 9, there is no requirement to consider whether or not there is a significant or prolonged decline in the value of these assets. The adoption of IFRS 9 has resulted in the other reserves in equity being reclassified into retained earnings. At 1 January 2018 the reserve was €642k.

The table below shows the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets as at 1 January 2018. The Group's financial liabilities have been classified at amortised cost.

1 January 2018

In €k	Note	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	Carrying amount under IFRS 9
Financial assets					
Trade receivables	14	Loans and receivables	Amortised cost	1,803	1,803
Receivables from gaming operations	14	Loans and receivables	Amortised cost	5,136	5,136
Other debtors	14	Loans and receivables	Amortised cost	1,677	1,677
Cash, cash equivalents and pledged cash	15	Loans and receivables	Amortised cost	92,052	92,052
Financial assets (debt and equity instruments)	15	Available for sale	FVPL	25,949	25,949
Financial assets – Other	15	Held to maturity	Amortised cost	1,174	1,174
Other investments	13	Fair value through the profit and loss	Equity instruments at FVOCI	3,041	3,041
Total financial assets				**130,832**	**130,832**

2. Expected credit losses

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 has applied a combination of the simplified and general approach to determine if it is required to record lifetime expected losses on its financial assets. On transition to IFRS 9, management reviewed the amount written off in previous periods and determined that no additional ECL was required.

3. Hedge accounting

The Group does not hold any instruments which have been designated for hedge accounting. Accordingly, there is no impact on the Group.

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 Executive Board of Directors.

We monitor the performance of the Lottery Betting segment based on 'normalised' revenue and EBIT (statutory revenue and adjusted EBIT adjusted for statistically expected prize pay-outs) and actual results for the Lottovate 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 business units and our consolidated statutory performance where statistically expected pay-outs are replaced with actual pay-outs. Inter-segment transactions are also eliminated as part of this process. Descriptions of the significant reconciling items are also included below the relevant tables.

We have described the composition of the segments in more detail below:

Lottery Betting Segment
The Lottery Betting segment comprises our secondary lottery betting business (secondary lottery), and sales of Instant Win Games products. Its cost base includes direct costs and an allocation of the shared cost base.

We monitor the performance of the Lottery Betting segment based on 'normalised' revenue and EBIT (statutory revenue and adjusted EBIT adjusted for statistically expected prize pay-outs). The disclosures included in the operating segment note are consistent with our internal reporting. 'Normalised' performance is given due prominence in the disclosure as this is the way we analyse our business internally. 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.

Lottovate Segment
The Lottovate segment comprises the elements of our business which are focused on the reinvention of the digital lottery experience, operating primary lotteries and helping charities, foundations and communities to unlock new sources of funding through bespoke lottery platforms.

These include our lottery brokerage business in Spain (Ventura24) and our international services business for lottery operators including online operation of the lottery games for charitable organisations, such as ONCE. The B2C business of Ventrua24 was closed in December 2018. In addition, the international business offers digital services to business partners (such as UNICEF Norway) and state lotteries as well as operating its own licensed lotteries through Lottovate. Finally, our Lotto Network brand has helped professional sports clubs and other organisations to raise funds through lottery operations. The Lotto Network brand was closed in 2018. The Lottovate segment's results comprise revenues and costs attributable to the operating activities of Lottovate together with an allocation of the shared cost base.

The Group has considered the requirements of IFRS 5 and concluded that the closed operations in Lotto Network and Ventura24's B2C business do not meet the definition of discontinued operations.

We monitor the performance of the Lottovate segment based on actual results.

ZEAL Ventures
The costs attributable to the operating activities of ZEAL Ventures are not separately disclosed. These costs do not meet the quantitative threshold requirements for separately identifiable segment reporting and are instead proportionally allocated to the Lottery Betting and Lottovate segments.

Business unit segment reporting

2018	Lottery Betting	Lottovate	Business unit total	Normalisation adjustments	Other adjustments	Statutory
in €k						
Revenue from secondary lottery	119,646	–	119,646	(4,377)	186	115,455
Revenue from Instant Win Games	13,562	–	13,562	1,744	–	15,306
Revenue from ticket sales and commission	16,217	7,773	23,990	–	–	23,990
Other operating income	4,391	537	4,928	(202)	175	4,901
Total Operating Performance	**153,816**	**8,310**	**162,126**	**(2,835)**	**361**	**159,652**
EBITDA	**56,977**	**(7,682)**	**49,295**	**(2,835)**	**1,282**	**47,742**
Depreciation/amortisation	(860)	(287)	(1,147)	–	–	(1,147)
Adjusted EBIT	**56,117**	**(7,969)**	**48,148**	**(2,835)**	**1,282**	**46,595**
Exceptional costs	–	–	(8,288)	–	–	(8,288)
EBIT	**–**	**–**	**39,860**	**(2,835)**	**1,282**	**38,307**
Financial result	–	–	–	–	(322)	(322)
EBT	**–**	**–**	**39,860**	**(2,835)**	**960**	**37,985**
Income tax	–	–	–	–	(11,322)	(11,322)
Net profit/(loss)	**–**	**–**	**39,860**	**(2,835)**	**(10,362)**	**26,663**

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

- 'Normalisation' adjustments, which bridge the quantum of statistically expected pay-outs, included within the Business unit column to consolidated statutory results (which include actual pay-outs).
- 'Other' adjustments include external revenue generated by Schumann e.K. (which does not form part of either the Lottery Betting or Lottovate segments) and €331k finance income, €204k of finance costs and €449k loss on financial assets.

Business unit segment reporting

2017	Lottery Betting	Lottovate	Business unit total	Normalisation adjustments	Other adjustments	Statutory
in €k						
Revenue	139,175	7,637	146,812	(12,725)	208	134,295
Other operating income	6,597	349	6,946	(190)	195	6,951
Total Operating Performance	**145,772**	**7,986**	**153,758**	**(12,915)**	**403**	**141,246**
EBITDA	**48,975**	**(9,399)**	**39,576**	**(12,915)**	**(225)**	**26,436**
Depreciation/amortisation	(956)	(299)	(1,255)	–	–	(1,255)
EBIT	**48,019**	**(9,698)**	**38,321**	**(12,915)**	**(225)**	**25,181**
Financial result	–	–	–	–	50	50
EBT	**–**	**–**	**38,321**	**(12,915)**	**(175)**	**25,231**
Income tax	–	–	–	–	(8,053)	(8,053)
Net profit/(loss)	**–**	**–**	**38,321**	**(12,915)**	**(8,228)**	**17,178**

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

- 'Normalisation' adjustments, which bridge the quantum of statistically expected pay-outs, included within the Business unit column to consolidated statutory results (which include actual pay-outs).
- 'Other' adjustments which include external revenue generated by Schumann e.K. (which does not form part of either the Lottery Betting or Lottovate segments) and €385k finance income and €335k of finance costs.

4 REVENUE

	2018	2017
in €k		
Stakes	254,538	241,306
Prizes	(127,531)	(132,125)
Revenue from secondary lottery betting and Instant Win Games	**127,007**	**109,181**
Ticket fees	20,500	18,095
Commission	7,244	7,019
Revenue	**154,751**	**134,295**

Revenue consists of secondary lottery betting and Instant Win Games products. These products are classified as derivative financial instruments and are disclosed in the Consolidated Income Statement net of VAT, free bets and prizes.

Revenue is also recognised from ticket fees and commissions, which the Group receives for placing bets on behalf of customers. For periods starting 1 January 2018, this revenue is accounted for under IFRS 15, 'Revenue from contracts with customers'.

4.1 CONTRACT BALANCES

The following table provides information about receivables, contract assets and contract liabilities from ticket fees and commission.

	Note	**31 December 2018**	1 January 2018
in €k			
Trade receivables	14	772	1,803
Contract assets	14	6,852	4,984
Contract liabilities	17	–	(122)

Trade receivables are non-interest bearing and are generally received on terms of 30 days.

Contract assets primarily relate to amounts due from customers, payments systems and lottery companies. They are included within receivables from gaming operations in note 14.

The contract liabilities primarily relate to advanced consideration received from customers in advance of draw results being available or subscription payments received in advance of lottery ticket information being passed on to the lottery organiser. The amount of revenue recognised in the year, which was included in the contract liabilities balance at the beginning of the year was €122k.

The amount of revenue recognised in 2018 from performance obligations satisfied in previous periods was nil.

The increase in the contract asset balance from €4,984k at 1 January 2018 to €6,852k is due to the increase in billings in December 2018 compared to December 2017. This resulted in an increase in the amount due from lottery companies, payment systems and players.

The contract liabilities balance at 1 January 2018 reflects deferred revenue in Ventura24. Ventura24's customer-facing brokerage business was closed in December 2018 and no more tickets were sold to customers resulting in a nil contract liabilities balance at 31 December 2018. Ventura24 continues to process customer refunds and the Group will continue to hold customer cash not claimed until it meets the definition of a dormant balance per the Groups' accounting policies.

4.2 PERFORMANCE OBLIGATIONS

Ticket Fees

The performance obligation is satisfied when the bet has been placed on behalf of customers. Customer payments are received in advance of the bet being placed.

Commission

The performance obligation is satisfied when the lottery ticket is purchased, the lottery ticket information passed on to the lottery organiser and confirmation of receipt of the information received. Customer payments are received in advance and amounts received are deferred until the performance obligations are met.

5 OTHER OPERATING INCOME

	2018	2017
in €k		
Income from hedging transactions	2,980	5,062
Release of dormant customer accounts	431	669
Other	1,490	1,220
Other operating income	**4,901**	**6,951**

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

The release of dormant customer accounts of €431k (2017: €669k) relates 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 other income, which relates mainly to sublease income for office space, increased due to an increase in income received on the sub lease of the London office. The total amount due under non-cancellable subleases at 31 December 2018 is €1,318k (2017: €1,513k).

6 OTHER OPERATING EXPENSES

in €k	2018	2017
Marketing expenses	19,666	19,131
Direct costs of operations	44,323	43,365
Other costs of operations	19,701	23,262
Other operating expenses	**83,690**	**85,758**

The decrease in other operating expenses is attributable to the following movements in cost categories:

- Increase in marketing expenses of €535k. The increased investment in marketing is consistent with our strategy to grow our international business via customer acquisition, specifically in the UK.
- The €958k increase in direct costs of operations is due to the booking of the €1,909k provision for Austrian gaming duty offset by a reduction in non-deductible VAT of €1,463k, due to one off costs in 2017.
- The decrease in other costs of operation of €3,561k, which is primarily due to a €1,161k decrease in legal cost, a result of a reduction in the use of external advisors, and a €875k decrease in freelancer staffing costs, a result of using internal staff to perform projects. A reduction in external recruitment has resulted in €228k of cost savings and the increased use of technology has driven down travel costs by €381k.

  The remaining movement is attributable to other movements that are individually immaterial.
- Other costs of operations includes fees charged by the auditor, Ernst & Young, LLP, and its affiliates are summarised in the table below.

Auditor's remuneration	**2018**	2017
in €k		
Audit of the financial report of the Group	447	449
Audit of the financial report of the Group's subsidiaries	63	58
Total audit services	**510**	**507**
Audit related assurance services[1]	35	–
Total audit and audit related assurance services	**35**	**–**
Other services relating to corporate finance transactions[1]	767	–
Other non-audit services	–	4
Total non-audit related services	**767**	**4**
Total auditor remuneration	**1,312**	**511**

[1] *These costs relate to additional one-off services in relation to the proposed acquisition of Lotto24.*

7 EXCEPTIONAL ITEMS

in €k	2018	2017
Costs associated with closure of operations in Ventura24's B2C business	2,983	–
Transaction costs	3,852	–
Restructuring costs	1,453	–
	8,288	**–**

COSTS ASSOCIATED WITH CLOSURE OF OPERATIONS IN VENTURA24'S B2C BUSINESS

€2,983k (2017: nil) of costs were incurred in association with the closure of Ventura24's consumer-facing brokerage business. The costs include €2,362k of costs associated with employee severance. The closure of the consumer-facing brokerage business is an event which will not recur and was not expected by management, as such all costs associated with the closure are considered to be exceptional in nature.

TRANSACTION COSTS

On 19 November 2018, the Group announced its intention to acquire Lotto24. Due to the irregular nature of the transaction these costs are considered to be exceptional. Transaction costs of €3,852k (2017: nil) were incurred by the Group. These costs include €2,156k of consulting costs, €767k of non-audit fees, €808k of legal costs, and €121k of public relations costs.

RESTRUCTURING COSTS

Ahead of the acquisition of Lotto24, the Group implemented a restructuring program. The costs include €1,253k of employee severance costs and €200k of other restructuring costs. The costs associated with this program are considered to be exceptional due to them being irregular.

8 FINANCE INCOME AND COSTS

	2018	2017
in €k		
Finance income		
Other interest and similar income	–	2
Income from other long-term securities and loans	331	383
	331	**385**
Finance costs		
Interest expense and similar charges	(204)	(335)
	(204)	**(335)**

9 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 corporate income tax rate in the UK amounts to 19.00% (2017: 19.25%).

In the case of foreign companies, the respective country-specific regulations and tax rates are used for the calculation of current income taxes. The impact of higher foreign tax rates is included as a reconciling item in the reconciliation below.

Deferred taxes under IAS 12 are calculated at the average tax rate at the time the differences are expected to reverse. For the calculation of deferred taxes, the total tax rate for domestic UK tax registered companies amounted to 17% (2017: 17%). In the case of foreign companies, the respective country-specific regulations, enacted and substantively enacted tax rates were used to calculate deferred taxes.

Income statement	2018	2017
in €k		
Current taxation		
Charge for the year	11,845	8,656
Adjustments in respect of prior years	66	(1,140)
Total current taxation	**11,911**	**7,516**
Deferred taxation		
Charge for the year	(589)	150
Adjustments in respect of prior years	–	387
Total deferred taxation	**(589)**	**537**
Total taxation expense (income statement)	**11,322**	**8,053**

Tax rate reconciliation	2018	2017
in €k		
Profit before taxation	**37,985**	**25,231**
Expected tax charge at standard UK rate of 19.00% (2017: 19.25%)	7,217	4,857
Non-deductible expenses	222	41
Adjustments in foreign tax rates	(38)	292
Adjustments in respect of prior years	66	(753)
Tax loss utilisation	(307)	(128)
Unrecognised tax losses carried forward	4,162	3,946
Recognition of previously unrecognised tax losses carried forward	(250)	–
Foreign exchange	–	(202)
Other tax items	250	–
Total taxation expense	**11,322**	**8,053**

A tax expense of €4,162k (2017: €3,818k) has been incurred during 2018 and is related to tax losses carried forward for which no deferred tax asset is recognised.

10 PROPERTY, PLANT AND EQUIPMENT

Cost	Office equipment	Hardware	Office equipment under construction	Total
in €k				
Balance as at 1 January 2017	**3,593**	**4,815**	**4**	**8,412**
Additions	842	594	–	1,436
Disposals	–	(4)	–	(4)
Balance as at 31 December 2017	**4,435**	**5,405**	**4**	**9,844**
Additions	343	379	–	722
Disposals	(10)	(12)	–	(22)
Balance as at 31 December 2018	**4,768**	**5,772**	**4**	**10,544**

Accumulated depreciation	Office equipment	Hardware	Office equipment under construction	Total
in €k				
Accumulated depreciation as at 1 January 2017	**(2,110)**	**(4,401)**	**–**	**(6,511)**
Provided during the year	(405)	(322)	–	(727)
Disposals	–	1	–	1
Accumulated depreciation as at 31 December 2017	**(2,515)**	**(4,722)**	**–**	**(7,237)**
Provided during the year	(471)	(423)	–	(894)
Disposals	–	12	–	12
Accumulated depreciation as at 31 December 2018	**(2,986)**	**(5,133)**	**–**	**(8,119)**

Book value	Office equipment	Hardware	Office equipment under construction	Total
in €k				
As at 31 December 2017	**1,920**	**683**	**4**	**2,607**
As at 31 December 2018	**1,782**	**639**	**4**	**2,425**

There are no assets held under finance leases (2017: none).

There are no restrictions on rights of disposal for the above mentioned tangible assets. No assets were pledged as collateral for liabilities.

11 INTANGIBLE ASSETS

Cost	Software	Other software	Licences	**Total**
in €k				
Balance as at 1 January 2017	**23,792**	**7,766**	**184**	**31,742**
Additions	–	236	–	236
Disposals	–	–	–	–
Balance as at 31 December 2017	**23,792**	**8,002**	**184**	**31,978**
Additions	–	44	–	44
Disposals	–	–	–	–
Balance as at 31 December 2018	**23,792**	**8,046**	**184**	**32,022**

Accumulated amortisation	Software	Other software	Licences	**Total**
in €k				
Accumulated amortisation as at 1 January 2017	**(23,792)**	**(7,080)**	**(68)**	**(30,940)**
Provided during the year	–	(510)	(18)	(528)
Disposals	–	–	–	–
Accumulated amortisation as at 31 December 2017	**(23,792)**	**(7,590)**	**(86)**	**(31,468)**
Provided during the year	–	(235)	(18)	(253)
Disposals	–	–	–	–
Accumulated amortisation as at 31 December 2018	**(23,792)**	**(7,825)**	**(104)**	**(31,721)**

Book value	Software	Other software	Licences	**Total**
in €k				
As at 31 December 2017	**–**	**412**	**98**	**510**
As at 31 December 2018	**–**	**221**	**80**	**301**

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.

12 DEFERRED TAXATION

Deferred taxation movement schedule	2018	2017
in €k		
At 1 January	**38**	**575**
Credited/(charged) to income statement	589	(537)
At 31 December	**627**	**38**

Deferred tax assets	Fixed asset allowances	Tax losses carried forward	Other temporary differences	Total
in €k				
At 1 January 2017	**415**	**–**	**160**	**575**
Charged to income statement	(377)	–	(160)	(537)
At 1 January 2018	**38**	**–**	**–**	**38**
Credited/(charged) to income statement	(1)	250	340	589
At 31 December 2018	**37**	**250**	**340**	**627**

The main rate of UK corporation tax was 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 Assent 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 when the deferred tax asset balances are forecast to be reversed.

Of the deferred tax assets carried by the Group, an amount of €250k (2017: €nil) refers to tax losses carried forward, and an amount of €377k (2017: €38k) to temporary differences.

Total tax losses carried forward amount to €105,584k as of 31 December 2018 (2017: €83,656k). The tax losses predominately arose in the UK, Germany and Spain. The tax losses do not expire. With the exception of €250k relating to Ventura24, 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 the losses could be utilised.

At 31 December 2018, there were no recognised or unrecognised deferred tax liabilities (2017: €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 that will be distributed in the foreseeable future are unlikely to have any tax consequences therefore no deferred tax liability has been recorded.

13 OTHER INVESTMENTS

	2018	2017
in €k		
Balance as at 1 January	**3,041**	**1,198**
Additions	247	1,843
Fair value adjustment through OCI	145	–
Balance as at 31 December	**3,433**	**3,041**

ZEAL holds investments in Omaze Inc ('Omaze'), Pick Media Limited ('Pick my Postcode' or 'PMP') (formerly The Free Postcode Lottery), Cloud Canyon Limited ('Wshful') and De Integro Limited ('The Dream Makers'). On adoption of IFRS 9, as the investments are held for long term strategic purposes, they have been designated as fair value through other comprehensive income. In 2017, PMP was held at cost and Omaze was held at fair value through profit or loss.

The Dream Makers
On 19 December 2018, the Group acquired a 10% interest in The Dream Makers which is located in England, United Kingdom. Cash consideration of €132k (£120k) was paid for 10% of the ordinary shares. The Dream Makers is a travel-deal subscription business which gives customers the chance to win amazing holiday experience.

At 31 December 2018, the Group has determined that the cash paid to acquire the investment is equal to the fair value of the business due to the timing of the investment.

Wshful
On 26 July 2018, ZEAL invested €115k (£100k) for a 5% interest in Wshful. Wshful is a lottery syndicator based in London. ZEAL holds an anti-dilution call option to purchase an extra 10% of the shares at any time within five years from the date of the investment.

At 31 December 2018, the Group has determined that the cash paid to acquire the investment is equal to the fair value of the investment and call option due to the timing of the investment.

Omaze
On 1 May 2017, ZEAL secured a cash investment of €1,843k (USD $2,000k) in Los Angeles based start-up Omaze. Omaze is disrupting charitable giving by offering once-in-a-lifetime experiences and exclusive merchandise in support of critical causes. ZEAL received preferred shares representing a 2.5% interest, a Board Observer seat and various rights to protect and extend its shareholding.

Pick My Postcode
In December 2016 the Group acquired for €1,198k (£1,000k), a 10% interest in PMP and 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.

Valuation of investments
For Omaze and PMP, the fair value of the investments was calculated using a discounted cash flow model to determine the fair value (enterprise value) of the underlying businesses that ZEAL has invested in. The fair value of ZEAL's share of each business has been measured using an option pricing model. The option pricing model allocates the enterprise value of the investment amongst the individual shareholders, to determine the fair value of their investment.

The discounted cash flow uses budgets, provided by our external investments, which show the forecasted earnings before interest and tax for the next 5 years to generate cash flow projections. These budgets are based on past experience and historic trends. The underlying growth rate varies between the investments and is detailed below. After year five a long-term growth rate has been applied in perpetuity. This growth rate is based on estimated long-term growth rates for the markets in which the investments operate. Accordingly, a terminal value has been applied using an underlying long-term growth rate of 1%. The cash flows are discounted to present value using a weighted average cost of capital ('WACC'). This WACC is considered to appropriately account for the uncertainty of how early start-up businesses will develop.

The key inputs in the Omaze valuation and their sensitivity are shown below:

Valuation technique	Significant unobservable input	Range	Sensitivity of the input to fair value
OPM	WACC	25%	5% increase (decrease) in the WACC would result in an increase (decrease) in fair value of €569k.
	Margin growth	6% to 1% per annum	2% increase (decrease) in the margin growth would result in an increase (decrease) in fair value of €391k.

The key inputs in the PMP valuation and their sensitivity are shown below:

Valuation technique	Significant unobservable input	Range	Sensitivity of the input to fair value
OPM	WACC	20%	5% increase (decrease) in the WACC would result in a (decrease) increase in fair value of €32k.
	Billings growth	5% to 10% per annum	4% annual change in billings would result in a (decrease) increase in fair value of €28k.

There was no dividend income from any investment in 2018 (2017: nil). No investments were disposed of during 2018, and there were no transfers of any cumulative gains or losses within equity relating to these investments.

14 TRADE RECEIVABLES AND OTHER CURRENT ASSETS

	2018	2017
in €k		
Trade receivables	772	1,803
Total trade receivables	**772**	**1,803**
Receivables from lottery companies, payment systems and players	7,312	6,948
Provision for expected credit loss/doubtful debt	(460)	(1,964)
Security retainers	210	152
Receivables from gaming operations	**7,062**	**5,136**
Other debtors	1,298	1,677
Prepayments and accrued income	6,554	5,818
VAT receivable	668	394
Other receivables	**8,520**	**7,889**
Trade receivables and other current assets	**16,354**	**14,828**

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

At 31 December 2018, an amount of €460k (2017: €1,964k) was provided against player receivables where the initial direct debit transaction failed. The decrease in the provision is due to the Group writing off failed direct debit balances after a period of 3 months.

See note 27.2 for an explanation of the ECL models applied to the trade receivables and other current asset balances, were appropriate.

15 CASH AND FINANCIAL ASSETS

	2018	2017
in €k		Restated
Bank balances	128,846	89,041
Cash on hand	3	5
Pledged cash	4,144	3,006
Cash and pledged cash	**132,993**	**92,052**
Equity funds	–	6,800
Fixed income funds	12,894	19,149
Other financial assets	–	1,174
Financial assets	**12,894**	**27,123**

In line with IAS 7, investment in equity funds are excluded from the cash and cash equivalents balance. Total cash and cash equivalents at 31 December 2018 is €145,887k (2017 restated: €112,375k). The prior year comparative has been restated to exclude equity funds from cash and cash equivalents. Details of the restatement can be found in note 2.23.

Bank balances mainly comprise term deposits on short-term call and with variable interest rates held at various major European banks.

Included within the bank balances of €128,846k (2017: €89,041k) is an amount of €10,888k (2017: €12,001k) to cover customer liabilities. Pledged cash is €4,144k (2017: €3,006k). This cash is pledged as a requirement of our Spanish, Czech and Norwegian gambling licences.

15.1 FINANCIAL ASSETS

At 31 December 2018, ZEAL held financial assets amounting to €12,894k (2017: €27,123k). These deposits comprised fixed-income funds and equity funds and are broadly spread and of high quality. A change in fair value of a €449k loss (2017: gain of €225k) was recognised in the income statement. Prior to the adoption of IFRS 9, gains and losses on financial assets were recognised in other comprehensive income.

At 31 December 2017 the Group also recorded other financial assets of €1,174k. These have been reclassified to pledged cash at 31 December 2018. The equity funds, fixed income funds and other financial assets are included as 'financial assets' above.

Movements in financial assets in the period are as follows:

	2018	2017
in €k		
Balance at 1 January	**27,123**	**19,682**
Acquired	–	18,885
Sold	(13,780)	(11,669)
Fair value movement	(449)	225
Balance at 31 December	**12,894**	**27,123**

16 OTHER LIABILITIES

Current	2018	2017
in €k		
Accrued liabilities	10,133	6,727
Accrued liabilities	**10,133**	**6,727**
Liabilities to players and game brokers	11,429	12,293
Liabilities from gaming duty	128	163
Liabilities from gaming operations	**11,557**	**12,456**
Employee benefits	**925**	**1,038**
VAT	2,567	2,589
Payroll related taxes and social security payable	242	288
Tax and social security payable	**2,809**	**2,877**
Total other liabilities – current	**25,424**	**23,098**

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

Non-current	2018	2017
in €k		
Accrued rent	1,194	1,535
Employee benefits	529	195
Other non-current liabilities	35	35
Total other liabilities – non-current	**1,758**	**1,765**

Employee benefits

The Group operates a Long-term Incentive plan arrangement for certain employees. Further details have been disclosed in note 22 to the Consolidated Financial Statements.

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

17 DEFERRED INCOME

Deferred income of €3,098k (2017: €2,105k) relates to payments for gaming orders and stakes received prior to 31 December 2018. In accordance with the Group's accounting policies, revenue can only be recognised on these stakes on the date of the respective draw. Of the deferred income recognised none (2017: €122k) relates to revenue transactions accounted for under IFRS 15.

The Directors expect that all deferred revenue will be released to the Consolidated Income Statement during 2019.

18 PROVISIONS

Current	Opening balance 1 January 2018	Utilisation/release	Additions	**Closing balance 31 December 2018**
in €k				
Provisions for litigation	837	(657)	259	439
Provisions for closure of Ventura24's B2C business	–	–	2,912	2,912
Provision for severance costs	–	–	990	990
Total current provisions	**837**	**(657)**	**4,161**	**4,341**
Provision for Austrian gaming duty	–	–	1,909	1,909
Provision for dilapidation	–	–	251	251
Total non-current provisions	**–**	**–**	**2,160**	**2,160**
Total provisions	**837**	**(657)**	**6,321**	**6,501**

Provisions for litigation

Provisions for litigation amounting to €439k at 31 December 2018 (2017: €837k) represent management's best estimate of the probable eventual cash outflow that will result from resolution of ongoing legal cases at 31 December 2018. 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 2019.

Provisions for closure of Ventura24's B2C Business

Provisions amount to €2,912k at 31 December 2018 (2017: nil) and represent managements best estimate of the probable eventual cash outflow resulting from the closure of Ventura24's B2C Business. The provision can be broken down between: employee related expenses including redundancy packages and other closure costs. At 31 December 2018, the provision is expected to be spent in the following year as affected employees leave the business.

Provision for severance costs

The severance provision relates to redundancy and other costs associated with the Group's decision to restructure the business ahead of the potential acquisition of Lotto24. At 31 December 2018, the provision is expected to be spent in the following year as affected employees leave the business.

Provision for Austrian gaming duty

The provision for €1,909k at 31 December 2018 (2017: nil) represents management's best estimate of the probable eventual cash outflow resulting from tax investigations. Management expects the outflow of cash to occur after more than one year and has therefore classified the amount as non-current.

Provision for dilapidation

The provision for €251k at 31 December 2018 (2017: nil) represents management's best estimate of the probable eventual cash outflow resulting from the expiry of the Group's office leases. The provision covers the estimated cost of the contractual obligation to return the offices to their state at the origination of the lease.

19 EQUITY

19.1 SHARE CAPITAL

The Company's share capital consists of 8,385,088 ordinary shares issued and fully paid (2017: 8,385,088). Shares have a €1 par value. Each share has the right to dividends and there are no preference shares or restrictions.

19.2 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 nominal amount of €1,197k. This increase in share capital can be effected by issuing, on one or more occasions, in whole or in part, new €1 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.

19.3 SHARE PREMIUM

The balance on the share premium account represents the amounts received in excess of the nominal amount of the ordinary and preference shares. Share premium amounted to €21,578k at 31 December 2018 (2017: €21,578k).

19.4 TREASURY SHARES

In March 2018, a final judgement was handed down by the Hamburg Regional Court in relation to a dispute originally raised in 2015 regarding the transfer of the registered office of ZEAL from Hamburg, Germany, to London, United Kingdom. As a result, qualifying shareholders who held shares in ZEAL on the date that the transfer was resolved became entitled to sell their shares back to ZEAL at a price which was set at €43.34 per share. A Resolution to approve the purchase of these shares by ZEAL was passed at an Extraordinary General Meeting on 27 July 2018. This has resulted in the acquisition of 43,910 treasury shares at a price of €43.34 per share resulting in a purchase price of €1,903k. The acquired treasury shares are treated as a deduction from equity and have reduced distributable reserves.

19.5 EARNINGS PER SHARE

Earnings per share (basic and diluted) was €3.18 (2017: €2.04) per share for the year ended 31 December 2018. In line with the requirements of IFRS, the 2017 EPS has been restated from €2.05 to €2.04 as a result of the purchase of treasury shares by the Group in July 2018, at above market value.

The weighted average number of shares was 8,366,792 (2017: 8,385,088), as a result of the purchase of 43,910 treasury shares in July 2018. In order to calculate the restated 2017 EPS an adjustment factor of 1.0036 was used.

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

Diluted earnings per share is calculated by dividing loss or profit for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year (increased to account for the diluting effects from stock options, warrant agreements or any other plans in place at the Statement of Financial Position date, which may lead to the issuance of an additional number of shares in the future). In fiscal year 2018, there was no dilutive effect as there were no such programs (2017: no dilutive effect).

19.6 OTHER RESERVES

Other reserves amount at 31 December 2018 is €227k (2017: (€560k)). In 2017 other reserves represented the 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 were reclassified to the income statement.

On transition to IFRS 9, the Group's financial assets were classified as investments held at fair value through profit or loss (FVPL). As a result, the gains and losses will no longer by recycled to the income statement on disposal and the reserve of €642k has been reclassified to retained earnings.

Other reserves includes; the legal reserve in Ventura24 of €82k (2017: €82k) and the fair value movement in equity instruments (as recorded within other investments) of €145k (2017: nil).

19.7 FOREIGN CURRENCY TRANSLATION RESERVE

The foreign currency translation reserve records amount to €201k (2017: €183k) and relates to exchange differences arising from the translation of the financial statements of foreign operations.

19.8 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.

20 SUBSIDIARIES

The list below includes all subsidiary 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	
				2018	2017
myLotto24 Limited [1] Suite 1, 3rd Floor 11–12 St. James's Square, London, SW1Y 4LB	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] Burchardstrasse 22 MBE 311 20095 Hamburg	Germany	Lottery	Subsidiary	100	100
Lottovate Deutschland GmbH Kurze Muehren 1 20095 Hamburg	Germany	Lottery	Subsidiary	100	100
Ventura24 S.L.U. [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 Suite 1, 3rd Floor 11–12 St. James's Square, London, SW1Y 4LB	United Kingdom	Technology services	Subsidiary	40	40
Lottovate Limited [1] 5th Floor One New Change, London, EC4M 9AF	United Kingdom	Lottovate business	Subsidiary	100	100
ZEAL International Limited[1] 5th Floor One New Change, London, EC4M 9AF	United Kingdom	Lottery	Subsidiary	100	100
Lottovate Nederland B.V. Herengracht 124 1015 BT Amsterdam	Netherland	Lottovate business	Subsidiary	100	100
Lottovate United States Inc[2] 2711 Centerville Road, Suite 400 Wilmington, County of New Castle 19808 Delaware	United States of America	Lottovate business	Subsidiary	100	100
Tipp24 Investment 1 Limited[1] 5th Floor One New Change, London, EC4M 9AF	United Kingdom	Holding company	Subsidiary	100	100

Name and registered office	Country	Principal activities	Nature of relationship with ZEAL Network	% effective interest	
				2018	2017
Tipp24 Investment 2 Limited[1] 5th Floor One New Change, London, EC4M 9AF	United Kingdom	Holding company	Subsidiary	100	100
Lotto Network Limited[1] 5th Floor One New Change, London, EC4M 9AF	United Kingdom	Lottovate business	Subsidiary	100	100
eSailors Limited[3] Suite 1, 3rd Floor 11-12 St. James's Square, London, SW1Y 4LB	United Kingdom	Holding company	Subsidiary	40	40
Schumann e.K. Strassenbahnring 11 20251 Hamburg	Germany	Lottery	Subsidiary	–	–
Geonomics Global Games Limited[1] 5th Floor One New Change, London, EC4M 9AF	United Kingdom	Holding company	Subsidiary	100	100
Geo24 UK Limited 5th Floor One New Change, London, EC4M 9AF	United Kingdom	Lottery	Subsidiary	100	100
Gratis Lotto Limited Suite 1, 3rd Floor 11–12 St. James's Square, London, SW1Y 4LB	United Kingdom	Lottery	Subsidiary	16	16
myLotto24 Australia PTY Ltd Office 4, Building 5 356-366 Bagot Road Millner, Northern Territory, 0812	Australia	Lottery	Subsidiary	40	40
HSS Corp.[4] 702 S. Carson Street, Suite 200, Carson City, Nevada 89701	United States of America	Lottery	Subsidiary	40	40
myLotto24 South Africa Pty Ltd 7 Martin Hammerschlag Way, Foreshore, Cape Town, 8001	South Africa	Lottery	Subsidiary	40	40
myLotto24 IT Platform Ltd[5] One Spencer Dock, North Wall Quay, Dublin 1	Ireland	Technology services	Subsidiary	40	–
Tipp24 Services Ltd (Malta)[6] 93 Mill Street, QORMI QRM 3102	Malta	Support services	Subsidiary	16	–
myLotto24 Ltd (Malta)[7] 93 Mill Street, QORMI QRM 3102	Malta	Support services	Subsidiary	40	–
ZEAL International Limited (Malta)[8] 85 St John Street, Valletta, VLT 1165	Malta	Lottery	Subsidiary	100	–

[1] *These subsidiaries are held directly by ZEAL Network.*
[2] *This subsidiary was dissolved on 27 February 2018.*
[3] *In 2017 eSailors IT Solutions Limited changed its name to eSailors Limited.*
[4] *This subsidiary was dissolved on 9 April 2018. ZEAL Network SE had an indirect interest of 40%.*
[5] *This subsidiary was incorporated on 30 January 2018. ZEAL Network SE has an indirect interest of 40%.*
[6] *This subsidiary was incorporated on 22 January 2018. ZEAL Network SE has an indirect interest of 40%.*
[7] *This subsidiary was incorporated on 22 January 2018. ZEAL Network SE has an indirect interest of 40%.*
[8] *This subsidiary was incorporated on 22 August 2018.*

Section 479A audit exemption

Tipp24 Investment 1 Limited, Tipp24 Investment 2 Limited, Lotto Network Limited, Geonomics Global Games Limited, Geo24 UK Limited, eSailors 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 of their individual accounts.

21 PERSONNEL EXPENSES

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

SEGMENTAL ANALYSIS

Director and employee numbers	Lottery Betting	Lottovate	**Total**
2018			
Executive Board	–	–	3
General Managers	6	2	8
Employees	160	84	244
Trainees	2	–	2
Temporary personnel	4	1	5
Total	**172**	**87**	**262**

Director and employee numbers	Lottery Betting	Lottovate	**Total**
2017			
Executive Board	–	–	3
General Managers	6	3	9
Employees	163	93	256
Trainees	3	–	3
Temporary personnel	2	1	3
Total	**174**	**97**	**274**

The Executive Board members are not allocated to a particular segment of the Group as they perform work across both the Lottery Betting and Lottovate segment.

During the current and prior year the Group had on average fewer than 250 employees working wholly or mainly in the UK.

Personnel expenses incurred during 2018 are included in the table below:

	2018	2017
in €k		
Wages and salaries	24,572	25,696
Pension contributions	641	485
Social security costs	3,624	2,449
Total employee benefit expense	**28,837**	**28,630**

These figures include remuneration for the Executive Board, further details of which are included in the Directors' Remuneration Report on pages 45 to 57.

Personnel costs associated with the closure of Ventura24's B2C business and the Group restructure have been disclosed in exceptional items and further detail can be found in note 7.

During 2018, €254k of these severance costs were paid and €8k of social security costs paid. The remainder will be paid to employees during 2019.

22 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.

The carrying amount of the liability relating to the Long-term Incentive plan at 31 December 2018 was €1,289k (2017: €1,233k). The total expense recognised for the Long-term Incentive plan was €510k (2017: €825k). Movements in the number of phantom shares awarded can be found below.

	2018	2017
in €k		
Outstanding at the beginning of the year	53,148	35,199
Granted during the year	22,305	17,949
Exercised in the year	(14,046)	–
Forfeited in the year	(20,519)	–
Outstanding at the end of the year	**40,888**	**53,148**
Exercisable at 31 December	**5,217**	**14,046**

The weighted average remaining contractual life of the outstanding awards is 1.42 years (2017: 0.82 years).

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. External market conditions are incorporated into inputs into the model. The dividend yield and share price volatility is based on ZEAL Network SE historic data and the risk-free rate calculation is based on government bond rates. The inputs used are:

	2018	2017
Risk-free rate	(0.65%)	(0.65%)
Dividend yield	5.0%	4.7%
Share Price Volatility	38.0%	37.0%
Weighted average fair value per phantom share (€)	19.84	21.42

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

23 DIVIDENDS

During 2018, a dividend of €1.00 per share (€8,341k) was declared and paid (2017: €8,385k).

Following the announcement of the acquisition of Lotto24, the Executive Board and Supervisory Board are reviewing the Group's dividend policy.

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.

24 COMMITMENTS AND CONTINGENCIES

OPERATING LEASES

During 2018, ZEAL expensed rental payments for offices amounting to €2,771k (2017: €3,120k). The future minimum lease payments for the non-cancellable operating leases are as follows:

Minimum lease payment	**2018**	2017
in €k		
Within 1 year	2,218	2,438
>1–5 years	7,234	7,306
>5 years	1,892	2,567
Minimum lease obligations	**11,344**	**12,311**

OTHER FINANCIAL COMMITMENTS

In addition, the Group had significant financial commitments arising from other contracts, including cooperation agreements, and insurance contracts. 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. At 31 December 2018 the Group had other commitments payable within one year of €2,200k (€14,764k).

The Group had no financial commitments with a maturity date greater than one year.

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 timing of associated financial impact is uncertain. Accordingly, the Directors have not recorded any liability in the Consolidated Financial Statements. It is estimated that in the event that ZEAL is unsuccessful in its defence, the potential financial effect would be €64.6m (2017: €41.3m) exclusive of tax impact. The Group 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 two to four years. In respect of other taxes and duties, with the exception of those provided in the Group financial statements, the Directors consider 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.

25 RELATED PARTIES

The members of the 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 20 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 (2017: €115k). An amount of €41k (2018: nil) was owed to Günther Direct Services GmbH at 31 December 2017, which was paid in full in January 2018.

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 nor 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 2018, dividends of £15k (2017: £15k) were paid by myLotto24 Limited and €15k by Tipp24 Services Limited (2017: £45k) to the Swiss Foundation. An amount of £15k has been accrued by both Tipp24 Services Limited and €15k by myLotto24 Limited relating to the 2018 dividend payable to this Swiss foundation. This is likely to be paid during 2019. Donations were paid by the Group to the Swiss Foundation of €20k by myLotto24 Limited and €20k by Tipp24 Services Limited, during the year (2017: nil).

Please refer to the Remuneration Report for details on Executive Board and Supervisory Board remuneration. A charge of €434k (2017: €562k) has been recognised in the consolidated income statement for the Director's long term incentives.

Key Management Personnel disclosures have been made in the Remuneration Report and note 22 to the Consolidated Financial Statements. Dividends paid to the Directors in the year are disclosed on page 55.

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

26 CAPITAL MANAGEMENT

ZEAL operates a decentralised capital management system. All major decisions concerning the financial structure of the Lottovate segment are taken by the Executive Board of ZEAL Network. Capital management activities of the Lottery Betting 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 have 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 Lottovate segment and the Lottery Betting 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 holds 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.

The Group's dividend policy is disclosed on page 116.

27 DISCLOSURES RELATING TO FINANCIAL INSTRUMENTS

27.1 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 2018 are classified as level 1, with the exception of other investments, which are classified as level 3. Other investments have been designated as fair value through other comprehensive income. At 31 December 2018, the fair value of these investments was €3,433k (2017: €3,041k). A discounted cash flow model is utilised to determine the fair value (enterprise value) of the underlying businesses that ZEAL has invested in. The fair value of ZEAL's share of each business has been measured using an option pricing model. The option pricing model allocates the enterprise value of the investment amongst the individual shareholders. Further details can be found in note 13.

For all level 1 financial instruments the carrying amount approximates the fair value and are classified as held at amortised cost, with the exception of financial assets. Financial assets have been designated as fair value through profit or loss. At 31 December 2018, the fair value of these financial assets was €12,894k (2017: €27,123k). Financial assets are quoted and their fair value is based on the price quotations at the reporting date.

During 2018, there were no transfers between level 1 and level 2 fair value measurements. On adoption of IFRS 9, the investment in PMP was transferred into level 3 fair value measurements. On acquisition the investments in Wshful and The Dream Makers were designated as level 3.

27.2 CREDIT RISK

The Group adopted IFRS 9 on 1 January 2018

The scope of the credit risk of ZEAL equals the sum of cash, financial assets, trade receivables and other receivables. The maximum credit risk at the reporting date is the carrying value of cash, short-term financial assets, receivables from gaming operations and trade receivables disclosed in note 14.

Impairment losses on financial assets recognised in profit or loss were as follows:

in €k	2018	2017
Impairment loss on receivables from gaming operations	1,160	1,569
Impairment loss on trade receivables	–	–
Impairment loss on cash and other financial assets	–	–
Total impairment loss	**1,160**	**1,569**

Cash and other financial assets

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

Due to the high total amount of cash and 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 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 short 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.

Impairment on cash has been measured on the 12-month expected loss basis and reflects the short maturities of the exposures. The Group considers that its cash has low credit risk based on the external credit ratings of the counterparties. No expected credit losses ('ECL') has been recognised for cash, as it is not material.

Financial assets are held at fair value through profit or loss and therefore not assessed for impairment.

Trade receivables

Trade receivables primarily relate to amounts due from our partners for services performed on their behalf. Amounts are invoiced monthly and payment is due within 30 days. Impairments on trade receivables have been considered using the simplified lifetime ECL model. An impairment analysis is performed at each reporting date based on past events. At 31 December 2018 the Group has €772k (2017: €1,803k) of trade debtors, due from one party (2017: two parties). They are current and none is overdue (2017: nil). This is consistent with past loss patterns and no provision has been recorded.

On transition to IFRS 9, management reviewed the amount written off in previous periods and determined that no adjustment was required.

Receivables from gaming operations

The Group mainly collects the amounts owed by customers directly, via direct debit or credit card. Missing amounts from such returned direct debits or credit card charges 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 the income statement in the event of payment default by a customer.

At 31 December 2018 €460k (2017: €1,964k) of customer direct debits or credit card payments were fully provided against. Of the €1,964k provided for at 31 December 2017, the Group has not recovered any of the balance and the full amount was written off during 2018. The Group provides against failed payments as they occur. Efforts to recover the amounts are continued for 3 months, if they not been recovered after this then they are fully written off. The Group has considered this in determining the appropriate level of lifetime credit losses for amount owed by customers.

The movement in the allowance for impairment in respect of receivables from gaming operations during the year was as follows. Comparative amounts for 2017 represent the allowance account for impairment losses under IAS 39.

	2018	2017
in €k		
Balances at 1 January per IFRS 9 (2018) and IAS 39 (2017)	**1,964**	**395**
Net re-measurement of loss allowance	1,620	1,569
Amounts written off	**(3,124)**	**–**
Balance at 31 December	**460**	**1,964**

Contingent assets

There are no contingent assets.

27.3 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 its 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 Lottery Betting segment, myLotto24 Limited conducts hedging transactions which transfer of payment obligation risks to catastrophe bonds/preference shares 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 2018	Within 1 year	Within 1 – 3 years	Within 3 – 5 years	Over 5 years	**Total**
in €k					
Trade payables	3,425	–	–	–	3,425
Other liabilities	21,562	1,229	–	–	22,791
Financial liabilities	106	–	–	–	106
Total	**25,093**	**1,229**	**–**	**–**	**26,322**

Year ended 31 December 2017	Within 1 year	Within 1 – 3 years	Within 3 – 5 years	Over 5 years	Total
in €k					
Trade payables	5,510	–	–	–	5,510
Other liabilities	20,058	1,765	–	–	21,823
Financial liabilities	106	–	–	–	106
	25,674	**1,765**	**–**	**–**	**27,439**

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 of €2,567k (2017: €2,589k), gaming duty of €128k (2017: €163k) and payroll related taxes and social security of €242k (2017: €288k).

27.4 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 financial assets held on 31 December 2018 with an interest rate increase of 100 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 €1,459k (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 €1,458k (2017: €1,190k).

27.5 CURRENCY RISK

The Company is exposed to a currency risk as a result of a range of 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 10% of the Euro against currencies where the earnings of the Company are exposed to was assumed at 31 December 2018.

On the basis of this assumption, a 10% increase in the value of the Euro against the British Pound, Norwegian Krone, South African Rand and the US Dollar would result in a positive effect of €314k (2017: €1,012k) on earnings. A devaluation of 10% would result in a negative effect of €321k (2017: €720k) on earnings.

In the year ended 31 December 2018 there was a gain from foreign exchange movements on financial instruments of €617k (2017: loss of €422k).

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

28 EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE

The Group published its offer document for the voluntary public takeover offer of the shares of Lotto24 on 31 January 2019. The acceptance period started on that date and Lotto24 shareholders have until 10 April 2019 to tender their shares. In February 2019, the Group announced that the Lower Saxony Ministry of the Interior had granted Lotto24 a supplement to its existing brokerage permit. This supplement allows for lottery tickets to be sold via the domains of Tipp24 on behalf of the German state lottery companies. This means a significant condition of the completion of the public takeover offer of Lotto24 has now been satisfied.

There were no other material subsequent events that require adjustment or disclosure in the financial statements for the financial year ended 31 December 2018 to the date of issue of this report.

COMPANY STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER

		2018	2017
ASSETS in €k	Note		
Non-current assets			
Property, plant and equipment		2	8
Deferred tax assets	A	–	–
Investments in subsidiaries	B	23,478	31,659
Loans to group undertakings	C	200	964
Other investments	D	3,433	3,041
TOTAL non-current assets		**27,113**	**35,672**
Current assets			
Intercompany receivables	E	15,554	934
Other current assets and prepaid expenses		2,122	239
Cash and pledged cash		26,518	24,085
Total current assets		**44,194**	**25,258**
Total assets		**71,307**	**60,930**

COMPANY STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER

EQUITY & LIABILITIES in €k	Note	**2018**	2017
Non-current liabilities			
Other liabilities	F	479	147
Total non-current liabilities		**479**	**147**
Current liabilities			
Trade payables	G	980	757
Other liabilities	F	5,265	3,031
Provisions	H	–	177
Total current liabilities		**6,245**	**3,965**
Total liabilities		**6,724**	**4,112**
Equity			
Subscribed capital	I	8,385	8,385
Share premium	I	21,578	21,578
Treasury shares	I	(1,903)	–
Other reserves	I	145	–
Retained earnings	I	36,378	26,855
Total equity		**64,583**	**56,818**
TOTAL EQUITY & LIABILITIES		**71,307**	**60,930**

PROFIT FOR THE FINANCIAL YEAR

As permitted by Section 408 of the Companies Act 2006, the parent company's Income Statement has not been included in these financial statements. The parent company's profit after taxation was €17,864k (2017: €22,722k).

These financial statements were approved by the Executive Board on 20 March 2019 and were signed on its behalf by:

Dr. Helmut Becker
Member of Executive Board

Jonas Mattsson
Member of Executive Board

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

	2018	2017
in €k		
Profit from continuing operations before tax	17,864	22,722
Adjustments for		
Depreciation and amortisation of non-current assets	6	6
Finance income	(464)	(79)
Finance costs	–	42
Income from shares in Group undertakings	(33,000)	(39,000)
Impairment of subsidiaries	8,181	–
Forgiveness of loans to Group undertakings	501	–
Other non-cash changes	(162)	(5)
Changes in		
Intercompany receivables, other current assets and prepaid expenses	(16,503)	1,541
Trade payables, provisions, and other liabilities	2,612	(1,390)
Interest received	464	79
Interest paid	–	(42)
Cash outflow from operating activities	**(20,501)**	**(16,126)**
Cash flow from investing activities		
Income received from Group undertakings	33,000	39,000
Payments for acquisition of investment	(247)	(1,843)
Repayment of loans made to Group undertakings	425	10,279
Investments in subsidiaries	–	(377)
Net cash inflow from investing activities	**33,178**	**47,059**
Cash flow from financing activities		
Purchase of treasury shares	(1,903)	–
Dividends paid to the Company's shareholders	(8,341)	(8,385)
Net cash outflow from financing activities	**(10,244)**	**(8,385)**
Net decrease in cash, pledged cash and financial assets	2,433	22,548
Cash, pledged cash and financial assets at the beginning of the year	24,085	1,537
Cash, pledged cash and financial assets at the end of the financial year	**26,518**	**24,085**
Composition of cash, pledged cash and financial assets		
Cash and pledged cash	26,518	24,085

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

	Subscribed capital	Share premium	Treasury shares	Other reserves	Retained earnings	**Total equity**
in €k						
Balance at 1 January 2017	**8,385**	**21,578**	**–**	**–**	**12,518**	**42,481**
Profit for the year	–	–	–	–	22,722	22,722
Other comprehensive income	–	–	–	–	–	–
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**22,722**	**22,722**
Transactions with owners in their capacity as owners						
Dividends paid	–	–	–	–	(8,385)	(8,385)
As at 31 December 2017	**8,385**	**21,578**	**–**	**–**	**26,855**	**56,818**
Balance at 1 January 2018	**8,385**	**21,578**	**–**	**–**	**26,855**	**56,818**
Profit for the year	–	–	–	–	17,864	17,864
Other comprehensive income	–	–	–	145	–	145
Total comprehensive income for the year	**–**	**–**	**–**	**145**	**17,864**	**18,009**
Transactions with owners in their capacity as owners						
Treasury shares acquired	–	–	(1,903)	–	–	(1,903)
Dividends paid	–	–	–	–	(8,341)	(8,341)
As at 31 December 2018	**8,385**	**21,578**	**(1,903)**	**145**	**36,378**	**64,583**

ACCOUNTING POLICIES

The Group Accounting policies described in note 2 to the Consolidated Financial Statements also apply to the Company. The Company adopted IFRS 15, Revenue from contracts with customers, and IFRS 9, 'Financial Instruments', on 1 January 2018. The impact of the adoption of these new standards is disclosed below.

IFRS 15, REVENUE FROM CONTRACTS WITH CUSTOMERS

The Company has adopted IFRS 15 from 1 January 2018. The directors have reviewed the impact of IFRS 15 on the results of the Company and determined that the impact of its adoption is immaterial.

IFRS 9, 'FINANCIAL INSTRUMENTS'

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied from 1 January 2018. The impact on the Company is split into three main areas:

1. Classification and measurement

Under IAS 39, the Group accounted for its investment in PMP at historical cost. The investment in Omaze was held at fair value through profit or loss. On adoption of IFRS 9, all investments were remeasured at fair value in accordance with IFRS 13. As the investments are not held for trading, the Group has elected irrevocably to present gains and losses on other investments in OCI. Under IFRS 9 all other investments are held at fair value through OCI and measured in accordance with IFRS 13.

A discounted cash flow model is utilised to determine the fair value (enterprise value) of the underlying businesses that ZEAL has invested in. The fair value of ZEAL's share of each business has been measured using an option pricing model. The option pricing model allocates the enterprise value of the investment amongst the individual shareholders.

The table below shows the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Company's financial assets as at 1 January 2018. The Group's financial liabilities will be classified at amortised cost.

1 January 2018

In €k	Note	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	Carrying amount under IFRS 9
Financial assets					
Loans to Group undertakings	C	Loans and receivables	Amortised cost	964	964
Other investments	D	Fair value through the profit and loss	Equity instruments at FVOCI	3,041	3,041
Intercompany receivables	E	Loans and receivables	Amortised cost	934	934
Cash and pledged cash		Loans and receivables	Amortised cost	24,085	24,085
Total Financial assets				**29,024**	**29,024**

2. Expected credit losses

IFRS 9 requires the Company to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Company has applied a combination of the simplified and general approach to determine if it is required to record lifetime expected losses on its financial assets. On transition to IFRS 9, management reviewed the amount written off in previous periods and determined that no ECL was required.

3. Hedge accounting

The Company does not hold any instruments which have been designated for hedge accounting. Accordingly, there is no impact on the Company.

A DEFERRED TAX

The utilisation of tax losses carried 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 2018 amounted to €82,363k (2017: €61,281k). There were no material temporary differences at 31 December 2017 or 31 December 2018.

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 20 to the Consolidated Financial Statements.

in €k	
Opening balance	31,659
Additions	–
Impairment	(8,181)
Closing balance	**23,478**

Impairment

During the year, the Company recorded an impairment charge of €5,347k against the investment in Ventura24 S.L.U. and €1,300k against the investment in Ventura24 Games S.A. Management compared the carrying value of the investments to their recoverable amounts. The recoverable amount is the greater of the fair value less costs to sell and the value in use. Following the closure of the B2C business management prepared a discounted cash flow to determine the value in use of ZEAL's investment. The discounted cash flow uses budgets showing the forecasted earnings before interest and tax for the next 5 years to generate cash flow projections. These budgets are based on past experience and historic trends. The cash flows are discounted to present value using a WACC of 10%.

The key assumptions are the discount rate and renewal period for an external services contract. Reasonable changes to the assumptions are considered to be changes to the discount rate used. An increase (decrease) in the discount rate by 1%, increases (decreases) the impairment charge by €34k (€34k).

During 2018, the decision was taken to transfer the employees out of Geonomics Global Gaming Limited, to other ZEAL Group entities, and to close the company. Following this the investment held by ZEAL of €1,534k was fully impaired.

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

C LOANS TO GROUP UNDERTAKINGS

Non-current	**2018**	2017
in €k		
myLotto24 Limited	–	414
Lotto Network Limited	–	550
ZEAL International Limited	200	–
Total loans to Group undertakings	**200**	**964**

The loan with myLotto24 Limited attracted interest at 2.65% per annum and the loan was repaid in the year. The loan with Lotto Network Limited attracted interest at 2.40% per annum and was forgiven in the year. The accrued interest payable on both loans at 31 December 2017 was €17k. This was included within current intercompany receivables.

In September 2018, the Company entered into a loan agreement with ZEAL International Limited. The Company agreed to loan ZEAL International Limited up to €500k at an interest rate of 2.75% per annum. The loan agreement has a maturity date of 1 October 2023. At 31 December 2018, the outstanding loan was €200k (2017: nil) and the accrued interest payable was €4k (2017: nil), included within current intercompany receivables.

The Directors have considered the need to book an ECL against these loans to Group undertakings and determined that any charge would be immaterial. As such no ECL has been booked. The counterparties have sufficient funds to meet their debts and there has been no history of impairing receivables balances between the Company and the counterparties which have outstanding debts at 31 December 2018.

D OTHER INVESTMENTS

ZEAL holds investments in Omaze Inc. ('Omaze'), Pick Media Limited ('Pick My Postcode' or 'PMP') (formerly Free Postcode Lottery), Cloud Canyon Limited ('Wshful') and De Integro Limited ('The Dream Makers'). On adoption of IFRS 9, as the investments are held for long term strategic purposes, they have been designated as fair value through other comprehensive income. At 31 December 2017, PMP was held at cost and Omaze was held at fair value through the profit and loss.

Further details have been disclosed in note 13 to the Consolidated Financial Statements.

	2018	2017
in €k		
Balance as at 1 January	3,041	1,198
Additions	247	1,843
Fair value adjustments through OCI	145	–
Total other investments	**3,433**	**3,041**

E INTERCOMPANY RECEIVABLES

Current	**2018**	2017
in €k		
myLotto24 Limited	15,000	13
Lottovate Limited	486	699
Geonomics Global Games Limited	–	167
Schumann e.K.	64	51
Lotto Network Limited	–	4
ZEAL International Limited	4	–
Total intercompany receivables	**15,554**	**934**

The intercompany receivables are repayable on demand and do not carry an interest charge. The Directors have considered the need to book an ECL against these receivables and determined that any charge would be immaterial. As such no ECL has been booked. The counterparties have sufficient funds to meet their debts and there has been no history of impairing receivables balances between the Company and the counterparties which have outstanding debts at 31 December 2018.

F OTHER LIABILITIES

Current	2018	2017
in €k		
Accrued liabilities	4,616	2,205
Employee benefits	649	826
Total other liabilities – current	**5,265**	**3,031**

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

Non-current	2018	2017
in €k		
Employee benefits	479	147
Total other liabilities – non-current	**479**	**147**

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

The Group operates a Long-term Incentive plan arrangement for certain employees. Further details have been disclosed in note 22 to the Consolidated Financial Statements.

G TRADE PAYABLES

Current	2018	2017
in €k		
Trade payables	980	757
Total	**980**	**757**

All trade payables are due within one year of the date of the statement of financial position. Further information is included in note 27 to the Consolidated Financial Statements.

H PROVISIONS

Current	Opening balance 1 January 2018	Utilisation/release	Additions	**Closing balance 31 December 2018**
in €k				
Provision for litigation	177	(177)	–	–
Total	**177**	**(177)**	**–**	**–**

Provision for litigation

The litigation provision was released following a favourable court judgement. Provisions for litigation amounting to €177k at 31 December 2017 (2018: nil) represented management's best estimate of the probable eventual cash outflow that would result from resolution of the ongoing legal case at 31 December 2017.

I SHARE CAPITAL AND RESERVES

Details of the Company's share capital and reserves are set out in note 19 to the Consolidated Financial Statements.

J HEADCOUNT AND COSTS

During 2018, the Company had an average of 13 full-time equivalent employees and 3 Directors (2017: 17 employees and 3 Directors).

Personnel expenses incurred during 2018 are included in the table below:

Current	**2018**	2017
in €k		
Wages and salaries	5,339	5,011
Pension contributions	130	122
Social security costs	469	628
Total employee benefit expense	**5,938**	**5,761**

K EVENTS AFTER THE REPORTING PERIOD

The Group published its offer document for the voluntary public takeover offer of the shares of Lotto24 on 31 January 2019. The acceptance period started on that date and Lotto24 shareholders have until 10 April 2019 to tender their shares. In February 2019, the Group announced that the Lower Saxony Ministry of the Interior had granted Lotto24 a supplement to its existing brokerage permit. This supplement allows for lottery tickets to be sold via the domains of Tipp24 on behalf of the German state lottery companies. This means a significant condition of the completion of the public takeover offer of Lotto24 has now been satisfied.

Further information about the transaction can be found at: www.zeal-offer.com

There were no other material subsequent events that required adjustment or disclosure in the financial statements for the financial year ended 31 December 2018 to the date of issue of this report.

OTHER INFORMATION

		2018	2017	2016	2015	2014
Customers						
Average Billings Per User per month	€	57.57	57.58	58.03	54.63	N/A
Average Monthly Active Users	No. k	403.5	379.8	375.7	372.2	N/A
Income statement	€k					
Billings		296,286	280,509	280,435	268,645	N/A
Revenue		154,751	134,295	112,935	88,962	140,702[1]
EBIT		38,307	25,181	37,956	42,859	19,156[1]
EBT		37,985	25,231	36,511	19,604	12,477[1]
Profit for the year		26,663	17,178	25,951	1,346	5,317
Balance sheet	€k					
Cash, cash equivalents and securities (incl. pledged cash, cash equivalents and securities)		132,993	92,052	94,983	94,777	92,585
Total non-current assets		6,932	6,634	4,677	8,198	34,109
Assets		169,212	141,111	136,016	140,354	155,406
Current liabilities		42,096	32,730	36,259	43,711	37,471
Non-current liabilities		3,918	1,765	2,199	1,474	682
Equity		123,198	106,616	97,558	95,169	117,253
Equity and liabilities		169,212	141,111	136,016	140,354	155,406
Cash flow	€k					
Cash flow from operating activities		38,202	13,152	33,741	27,285	23,838
Cash flow from investing activities		5,554	(511)	(3,258)	(4,287)	(8,938)
Cash flow from financing activities		(10,244)	(8,385)	(23,478)	(23,478)	(62,888)
Personnel						
Number of employees	No.	262	274	250	257	274
Personnel expenses	€k	(28,837)	(28,630)	(26,705)	(25,434)	(20,701)[1]
Expenses per employee	€k	110	104	105	103	76[1]
Share (from 2004)						
Average number of shares (undiluted)	No.	8,366,792	8,385,088	8,385,088	8,385,088	8,385,088
Earnings Per Share (undiluted)	€	3.18	2.04[2]	3.09	0.16	0.63[1]
Operating cash flow per share (undiluted)	€	4.57	1.57	4.02	3.25	2.84
Ratios	%					
EBIT margin		24.8	18.8	33.6	48.2	13.6[1]
Net operating margin		16.7	12.8	23.0	1.5	3.8[1]
Return-on-equity (ROE)		21.2	16.1	26.6	1.4	4.5[1]

[1] *from continuing operations*
[2] *In line with the requirements of IFRS, the 2017 EPS has been restated from €2.05 to €2.04 as a result of the purchase of treasury shares by the Group in July 2018. Further details of the purchase can be found in note 19.4.*

	2013	2012	2011	2010	2009	2008	2007	2006	2005
	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	N/A	N/A	335,947	346,776	264,235	204,696
	129,933[1]	142,731[1]	139,316[1]	101,882[1]	89,551	45,838	44,974	34,575	26,119
	19,459[1]	56,464[1]	51,905[1]	32,681[1]	23,052	8,897	8,949	7,244	6,048
	18,831[1]	56,782[1]	52,770[1]	33,167[1]	25,076	10,720	11,192	8,365	6,490
	10,187	40,891	36,339	19,551	17,482	6,606	6,272	7,445	3,318
	85,822	78,303	64,123	43,957	69,361	21,261	66,121	60,764	57,174
	44,593	48,881	36,215	29,444	18,296	12,304	7,213	5,740	7,296
	213,581	191,217	173,043	130,013	108,123	93,151	91,739	82,794	72,135
	36,821	39,414	42,848	36,911	42,971	35,623	35,774	22,128	18,854
	1,204	1,427	904	181	752	2,607	335	14	96
	175,556	150,375	129,291	92,921	64,399	54,922	55,630	60,652	53,185
	213,581	191,217	173,043	130,013	108,123	93,151	91,739	82,794	72,135
	16,751	22,546	44,323	14,081	30,217	9,651	17,886	8,360	10,308
	(8,038)	(8,098)	(24,157)	(48,446)	25,579	(47,040)	(1,200)	(4,769)	(6,371)
	15,337	0	0	8,950	(7,723)	(7,386)	(11,335)	–	40,035
	140	104	128	121	132	185	154	144	114
	11,090[1]	10,760[1]	12,026[1]	10,110[1]	12,524	12,667	10,324	8,277	6,990
	79[1]	103[1]	94[1]	84[1]	72	69	67	58	61
	8,268,421	7,985,088	7,985,088	7,715,614	7,730,961	8,032,265	8,524,199	8,872,319	7,191,100
	1.30[1]	4.99[1]	4.80[1]	2.85[1]	2.26	0.82	0.74	0.84	0.46
	2.03	2.82	5.55	1.82	3.91	1.20	2.10	0.94	1.43
	15.0[1]	39.6[1]	37.3[1]	32.1[1]	25.7	19.4	19.9	21.0	23.2
	7.8[1]	28.6[1]	26.1[1]	19.2[1]	19.5	14.4	13.9	21.5	12.7
	5.8	27.2	28.1	21.0	27.1	12.0	11.3	12.3	6.2

FINANCIAL CALENDAR

7 May 2019	Publication of Q.1 Report
27 June 2019	Annual General Meeting
14 August 2019	Publication of Q.2 Report
13 November 2019	Publication of Q.3 Report

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Unicef-Lotteriet, 2019

Published by
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