

# BETTER

# 2GETHER

HALF-YEAR REPORT  
1 JANUARY – 30 JUNE 2020



# ZEAL



ZEAL is a Hamburg-based Group that creates online lottery experiences. Founded in Germany in 1999, it was initially set up as a lottery broker. In 2005, it was floated on the Frankfurt stock exchange and became one of the most successful initial public offerings (IPOs) in Germany at the time.

In 2009, the Group changed its focus from lottery brokerage to lottery betting. In November 2014, it moved its registered office to London.

In May 2019, ZEAL completed the takeover of Lotto24 AG. It transitioned its former Tipp24 secondary lottery business to a German online lottery brokerage business in October 2019, and has since become the leading German online broker for state lottery products once again. In the same month, it relocated its registered office back to Germany.

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## H1 2020 AT A GLANCE

€314.4m

**BILLINGS**

(H1 2019: €179.4m)

€43.3m

**REVENUE**

(H1 2019: €77.5m)

€3.3m

**ADJUSTED EBITDA**

(H1 2019: €31.2m)

12.4%

**GROSS MARGIN,  
GERMANY SEGMENT<sup>1</sup>**

(H1 2019: NOT APPLICABLE)

€27.13

**COST PER LEAD,  
GERMANY SEGMENT<sup>1</sup>**

(H1 2019: NOT APPLICABLE)

593k

**NEW REGISTERED CUSTOMERS,  
GERMANY SEGMENT<sup>1</sup>**

(H1 2019: NOT APPLICABLE)

<sup>1</sup>In the six months ended 30 June 2019, the Group did not operate a Germany segment as defined on page 27 of this report. As such, prior year comparatives are not available.

## STRONG FIRST HALF OF 2020

- Billings up 75%
- Solid gross margin reached
- 91% of planned cost synergies already achieved
- High marketing investment to capitalise on the good jackpot environment
- Guidance for new registered customers already exceeded
- Guidance 2020 raised

*Definitions of the financial measurements disclosed above can be found in the Key Financial Figures section of the 2019 Group Management Report.*

# EXECUTIVE REVIEW

## LADIES AND GENTLEMEN,

The first half of 2020 was a success for the ZEAL Group<sup>1</sup>: supported by a strong EuroJackpot development, we increased our billings, achieved a solid gross margin and already 91% of our synergy targets. In addition, with high marketing investments to take advantage of the good jackpot environment, we have already exceeded our guidance for new registered customers with 593 thousand new registered customers in the Germany segment in the first half of 2020 and have raised our guidance for 2020 due to the strong first half of the year. We are well on the way to achieving our goals, even though some steps of the transition, such as the full technical integration of Lotto24 AG ('Lotto24'), are yet to be completed.

## ON GROWTH COURSE

ZEAL Group's billings increased by 75% to €314.4 million in the first half of 2020 (2019: €179.4 million), mainly thanks to the inclusion of Lotto24 and the good jackpot development. The Germany segment contributed €313.8 million to this, billings of the Spanish ONCE business are not attributed to our billings for contractual reasons. In a year-on-year comparison, however, it should be noted that in 2019 we offered a broader product range in the secondary lottery business (e.g. including 'Instant Win Games', the European lottery 'EuroMillions' or the US 'Powerball' lottery), which were discontinued in October 2019 due to the Business Model Change<sup>2</sup>. Moreover, Lotto24's online lottery brokerage business has only been part of the ZEAL Group in the previous year since 14 May 2019. The Lotto24 billings up to 14 May 2019 were therefore not included in the previous year's figures.

Although the average jackpot for the German Lottery 6aus49 was below that of the previous year in the first half of 2020 and only exceeded the €20 million mark twice (2019: twice), the average jackpot of the European Lottery EuroJackpot was significantly higher than in the previous year and reached the €90 million mark six times (2019: once), five of these times in the second quarter alone (2019: once).

Our revenue decreased by 44% to €43.3 million (2019: €77.5 million), mainly due to the expected revenue dissynergies in connection with the Business Model Change. Similar to billings, revenue in the first half of 2019 still included the secondary lottery business but not Lotto24's online lottery brokerage business until 14 May 2019. Revenue in the Germany segment amounted to €39.0 million in the first half of 2020.

Supported by the market launch of the social lottery freiheit+ in March 2020 and the positive development of lottery clubs the gross margin in the Germany segment was 12.4% in the first six months of 2020 (2019: no Germany segment). Since, among other things, the Spanish ONCE business is not included in billings but only in revenue, our margin development is better reflected in the Germany segment rather than on Group level.

## 91% OF PLANNED COST SYNERGIES ALREADY ACHIEVED

As announced, we also succeeded in further reducing our cost base: Our personnel and other operating expenses together in the first half of 2020 fell by €6.7 million to €41.3 million (2019: €48.0 million). Here, too, it should be noted that Lotto24 AG's costs were not yet included up to 14 May 2019, so the cost savings would have been correspondingly higher compared to the previous year. Despite the €7.3 million increase in marketing costs to €18.3 million to capitalise on the good jackpot environment (2019: €11.0 million), other operating expenses fell by €6.8 million to €30.1 million (2019: €36.8 million).

<sup>1</sup> The ZEAL Group is comprised of ZEAL Network SE and its subsidiaries.

<sup>2</sup> The Business Model Change refers to the Lotto24 takeover and the conversion of the former Tipp24 secondary lottery to the German online lottery brokerage business.

The targeted synergies of at least €57.0 million p.a. have made a significant contribution to the cost savings: thanks to the strict implementation of the planned measures, we have already succeeded in generating 91% of the planned cost synergies by May 2020, i.e. by the end of the first year after the completion of the Lotto24 takeover. We have achieved our goal of generating 80% of the cost synergies in this period faster than planned. Against this background we remain confident that we will also be able to reach the planned 100% of the cost synergies by May 2021 at the latest. Overall, we continue to expect total one-time expenses for achieving the planned cost synergies within the targeted range of between €15.0 million and €20.0 million. By the end of the first half of 2020, we have incurred expenses of €15.0 million on this. For the second half of 2020 we expect further expenses of up to €1.0 million.

As our latest growth shows, the German online lottery brokerage market offers tremendous growth potential for the ZEAL Group: In the first half of 2020, we have already exceeded our guidance with 593 thousand new customers registered in the Germany segment at acquisition costs per new registered customer (cost per lead, CPL) of €27.13 (2019: no Germany segment).

#### AS EXPECTED, ADJUSTED EBITDA<sup>1</sup> BELOW PREVIOUS YEAR

As a result of the revenue dissynergies in the course of the Business Model Change, our adjusted EBITDA in the ZEAL Group of €3.3 million was, as expected, down on the previous year (2019: €31.2 million). Despite the increased marketing costs, the Germany segment contributed €1.4 million to this figure. After deducting increased depreciation and amortisation mainly resulting from the takeover of €5.2 million (2019: €2.5 million) and non-recurring expenses of €0.1 million (2019: €7.4 million), EBIT fell to a loss of €2.0 million (2019: profit of €21.3 million).

#### ANNUAL GENERAL MEETING 2020

On 19 June 2020, we held our Annual General Meeting (AGM) for the first time as a virtual meeting without the physical presence of shareholders or their proxies in the course of the Corona crisis. With an overall attendance of around 70% of voting capital, the Management's proposed resolutions on all agenda items were adopted by a large majority. In addition to approving the actions of the Management Board and the Supervisory Board as well as appointing the auditors, the agenda included the resolution on the appropriation of the balance sheet profit. Due to the positive liquidity situation of the ZEAL Group in 2019 and the expected increasing profitability, the Management Board and the Supervisory Board had proposed a total distribution of €17.9 million (2018: €8.4 million) to the AGM. This corresponds to a dividend of €0.80 per share for the fiscal year 2019 (2018: €1.00).

In addition, Frank Strauss was elected as a member of the Supervisory Board after the Chairman of the Supervisory Board, Andreas de Maizière, resigned from his office at the end of the Annual General Meeting. Andreas de Maizière had supported ZEAL in the course of the combination with Lotto24 and now retired from the Supervisory Board after the very successful implementation. At the constituent meeting of the Supervisory Board, also held on 19 June 2020, Peter Steiner was elected as the new Chairman of the Supervisory Board.

#### IMPACT OF THE CORONA CRISIS

Due to the ongoing changes in general conditions and developments, we cannot conclusively assess the effects of the applicable COVID-19 restrictions on ZEAL. So far, the overall reduced consumer behaviour has not had a negative effect on our business model. The fact that lottery sales outlets in particular were only affected to a limited extent by the closures has not, at least not yet, led to a dramatic reduction in lottery sales and thus to declining, less attractive jackpot levels. We are currently unable to conclusively assess whether the restrictions on public life and the significant increase in the amount of time spent at home have led to growth in online lottery brokerage sales. The jackpot levels were by chance particularly high during almost every week of the Corona-related lockdown. Thus, we cannot assess whether the high customer activity during the period of the lockdown restrictions was due to the attractive jackpot levels or to increased online conversion as a result of the general circumstances. But what this special situation has already shown us is that we can handle all business processes with our employees working almost entirely from home without any problems. We are therefore well positioned to offer our customers the best possible online lottery service even in such times and to help limit the effects of this crisis on our employees, our customers and the community as far as possible.

<sup>1</sup> Adjusted EBITDA is the result from operating activities before amortisation, depreciation and non-recurring expenses.

### GUIDANCE 2020 RAISED

In fiscal year 2020, we plan to continue expanding our market leadership as an online provider of state lottery products with the Lotto24 and Tipp24 brands. Due to the strong half-year figures, we now expect billings of between €590 million and €610 million (2019: between €550 million and €570 million), revenue of between €76 million and €79 million (2019: between €70 million and €73 million) and a gross margin in the Germany segment of slightly above 12% (2019: around 12%) in fiscal year 2020. Depending on the general conditions, in particular the jackpot development, the continuation of the high marketing investments for the acquisition of new customers and the implementation of the synergy effects, we expect the adjusted EBITDA to be between €7 million and €10 million (2019: between €5 million and €8 million). Due to access to proven, more cost-effective marketing channels, we expect the number of new registered customers to be around 800 thousand in the Germany segment in 2020 (2019: almost twice as many new registered customers as in the previous year with 274 thousand) with a lower CPL than in the previous year.

### DEAR SHAREHOLDERS,

Despite the corona crisis, we have developed very well in the first half of 2020 and have not only continued to grow, but have also set the course for increasing profitability in the future by consistently and even more rapidly implementing the planned synergy measures. We look forward to continuing this path together with you.

Hamburg, 12 August 2020

The Management Board



Dr. Helmut Becker  
Chief Executive Officer



Jonas Mattsson  
Chief Financial Officer

# INTERIM GROUP MANAGEMENT REPORT

## BUSINESS AND ECONOMIC CONDITIONS

### ORGANISATIONAL STRUCTURE

ZEAL Network SE is a German Societas Europaea (SE) with its registered office in Hamburg, Germany. 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 Management Board. Following the takeover of Lotto24 on 14 May 2019 and the Business Model Change on 15 October 2019, the Group has reviewed its reportable operating segments and determined that the following segments should be used from 1 January 2020.

#### Germany

This operating segment comprises the results of the Group's online lottery brokerage business in Germany. It also includes the results of the social lottery freiheit+ in Germany. Its cost base includes direct operational costs as well as the Group's shared costs.

#### Other

This operating segment comprises the elements of our businesses which are focused on operating primary lotteries with national permits, our international services business for lottery operators, and investments in early stage start-ups.

### COMPELLING BUSINESS MODEL

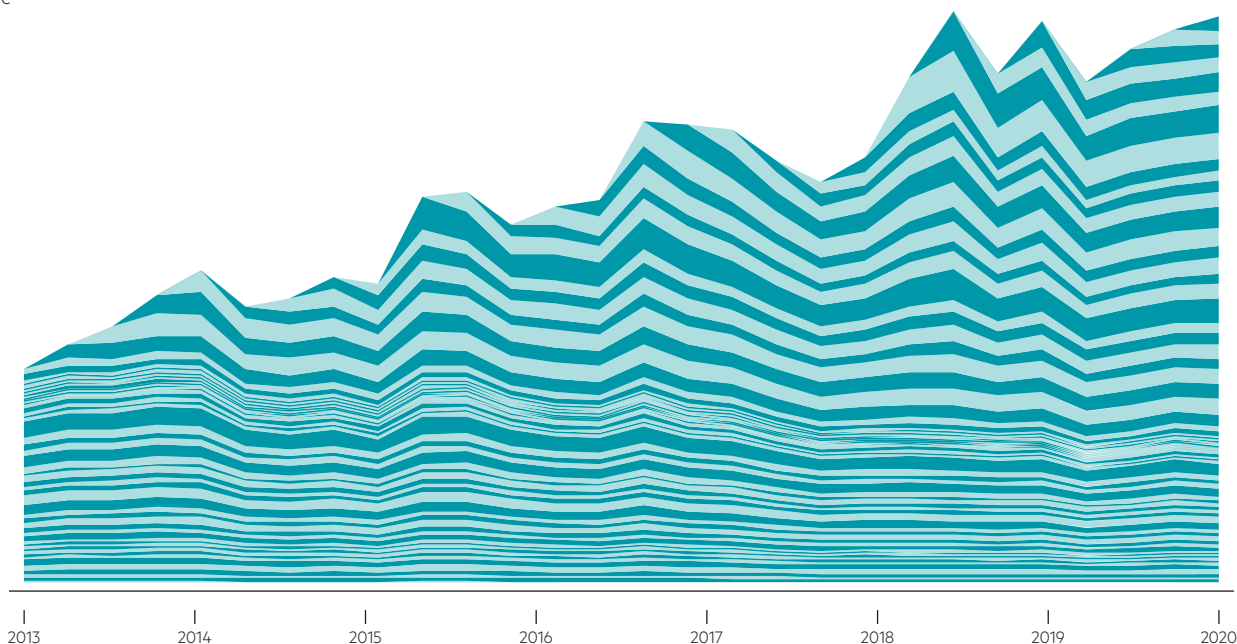
In our largest segment, Germany, we broker lottery products via the Internet (Lotto24.de, Tipp24.com) and receive brokerage commissions from the lottery operators. We can therefore generate income without bearing the book-making risk ourselves. In addition to the Lotto24 brand, we have also transferred the former secondary lottery Tipp24 to the German brokerage business and have been brokering tickets to the state lottery companies via the domains Tipp24.de and Tipp24.com since 15 October 2019.

Amongst other things, we offer our customers the possibility to participate in the lottery products 'Lotto 6aus49', 'Spiel 77', 'Super 6', 'EuroJackpot', 'GlücksSpirale', 'Keno', lotto clubs, instant lotteries and 'Deutsche Fernsehlotterie'. On behalf of, and in the name of, our customers, we enter into gaming agreements with the respective lottery operator. Our products are well-known on the market. In addition, we launched the new social lottery freiheit+ for the promotion of educational projects together with BildungsChancen gGmbH under the Tipp24 brand on 9 March 2020.

One of the sector-specific success factors of our business model is the enduring loyalty of our customers: once gained, they provide us with long-term and stable billings.

### BILLINGS PER CUSTOMER GENERATION (LOTTO24 AND TIPP24, QUARTERLY)

in €



## STRATEGY

On the basis of the business segments presented above, our objectives are to

- continue to grow and expand our tried and trusted business models, especially in Germany but also in Spain,
- build on our existing strengths in order to develop new lottery businesses, and
- discover new start-up ideas in order to tap further target groups and gain important market knowledge.

Our Marketing and IT departments play a key role in these endeavours.

## VALUE-ORIENTED CORPORATE GOVERNANCE

### Management and control

Dr. Helmut Becker is responsible for leading the Management Board, Corporate Strategy, External Communications, Legal Affairs and Regulation, Human Resources, Marketing, Sales, the Lottery Brokerage, Lottery Betting and Lottovate business units, and Technology.

Jonas Mattsson is responsible for Finance, Accounts, Taxes, Controlling, Investor Relations, Risk Management, Asset Management, Banking Relations, External Auditing, Periodic Reporting to the Supervisory Board, and the Management of the Business Activities in Spain.

### Key financial figures

The main financial KPIs which we use to manage the Group and whose values we aim to improve are:

- **Billings** (stakes placed by customers, influenced both by the variety and attractiveness of our product portfolio and the efficiency of customer retention measures);
- **Revenue** (commission for brokered tickets/stakes to be remitted and additional/ticket fees in connection with the lottery brokerage of stakes),
- **Gross margin** (ratio of revenue (excluding intercompany revenue) to billings),
- **Adjusted EBITDA** (earnings before interest, taxes, depreciation, amortisation and non-recurring expenses represents the Group's earnings over a certain period of time);
- The **number of new registered customers**, lottery brokerage (customers who have successfully completed the registration process on our website. This number is disclosed after adjustment for multiple registrations and de-registrations.);
- **CPL** (cost per lead, or acquisition costs per new registered customer – not including CRM costs, customer service, etc.) which we use to monitor the efficiency of our marketing efforts.

## EMPLOYEES

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The number of employees (full-time equivalents, FTEs, excluding students) decreased from 244 on 30 June 2019 to 160 on 30 June 2020.

## RESEARCH AND DEVELOPMENT

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We regard ourselves as a customer-oriented technology Group. This also involves building up core competencies and developing and operating our platform and central systems ourselves, in order to be able to align software with operational processes and customer needs in the best possible way. This covers the entire process chain from the online registration of our customers through the purchase of lottery products to the payment and transmission of tickets to the lottery companies.

Based on the planning and decisions made in 2019, we made further progress in the first half of 2020 with the planned platform merger, which will technologically bring the online shops of Lotto24.de, Tipp24.com, Lotto.gmx.de and Lotto.web.de onto a state-of-the-art, modular and competitive platform while retaining their brand-specific features.

In addition, the new, native iOS apps – for both Lotto24 and Tipp24 – are now available for download from the Apple App Store and enjoy great popularity, as confirmed by the positive customer reviews.

As the Tipp24 platform will be the leading system in future, appropriate investments and expansions were also made in order to create maximum value for all brands after the conversion. For example, the new social lottery freiheit+ was initially launched on Tipp24.com in March 2020 and is expected to be available to all other German customers in the fourth quarter of 2020. We have also taken measures to improve our margin: Lottery clubs can now be implemented more quickly, enabling us to offer our customers significantly more lottery clubs in the first half of 2020 than in the past. In addition, we have optimised the 'Wrapper Apps' for Android and the attractiveness of product subscriptions through offer adjustments. Following approval by the Ministry of the Interior of Lower Saxony, Tipp24 has been using the Video ID process for customer and age verification since January 2020. As a consequence, customers no longer need to go to the post office as they did under the previous Post-Ident procedure. With the platform standardisation, this method is also to be used on Lotto24.de. We have also expanded our portfolio of Instant Win Games, such as additional state-specific scratch cards.

In the first six months of 2020, we also changed our internal, Group-wide communication and telephony platform, which put us in the fortunate position of being able to switch the entire Company over to home office work with just a few days' notice in the wake of the Corona crisis without any significant disruption to communication.



# ECONOMIC REPORT

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## REGULATORY CONDITIONS

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### STATE TREATY ON GAMES OF CHANCE

In Germany, the offering of lotteries via the internet is regulated by the German State Treaty on Games of Chance ('Glücksspielstaatsvertrag' – GlüStV). The current version of the GlüStV came into force on 1 July 2012 and enables commercial gaming brokers such as Lotto24 to offer state-licensed lottery products via the Internet. This State Treaty expires on 30 June 2021.

On 12 March 2020, the heads of the German federal states agreed on a follow-up State Treaty. The State Treaty on Games of Chance 2021 (GlüStV 2021) includes a permit model for virtual slot machines (online games), sports betting (online and offline) and online poker, as well as a license model for online casino. The announcement followed several months of political debate on the degree of market opening, especially for online games and online casinos.

Germany's federal states are planning to establish a national gambling supervision authority. The current Gambling Council of the federal states is to be dissolved in the medium term. Existing game and brokerage permits held by providers already active on the market, such as Lotto24, will remain valid beyond 30 June 2021 for a further calendar year, however the provisions of the GlüStV 2021 will then already apply, e.g. no advertising permit will be needed in future. The regulations of the GlüStV 2021 affect all game formats and are also relevant to commercial game brokerage. However, we do not expect the new legislation to have any significant impact on our business model. As expected, Germany's federal states are upholding their state monopoly for lotteries, with the exception of lotteries with low risk potential (social lotteries). The specific regulations for commercial lottery brokerage remain largely unchanged. In addition, the previous requirement to strictly separate gaming formats on different websites will be abolished.

Subject to certain restrictions, game providers will be permitted to offer different game formats via the same Internet domain in future. Moreover, the GlüStV 2021 makes a distinction in many areas (e.g. advertising, player identification, blacklist) between classic lottery offerings, with no more than two draws per week, and all other offerings, such as sports betting and online games, as well as online instant lotteries and 'Keno'. We expect that this will result in a greater degree of freedom for our current offering of classic lottery products. The current draft law has been initiated by the heads of Germany's federal states and is currently undergoing the notification procedure at the European Commission, and it will have to be passed by the parliaments of the German federal states. The GlüStV 2021 has no expiry date and can be terminated no sooner than 31 December 2028.

### NATIONWIDE BROKERAGE PERMIT

On 24 September 2012, Lotto24 AG first received the permit allowing it to broker state lotteries via the Internet throughout Germany. With a decision dated 26 July 2017, the Ministry of the Interior for Lower Saxony granted an extension permit. It still contains restrictive and in part uncertain ancillary provisions and conditions such as strict regulations regarding the age verification of players and the duty to divide gaming revenue among all 16 state lottery companies (regionalisation) – based on the player's place of residence. With a decision dated 29 March 2018, the Ministry of the Interior for Lower Saxony granted Lotto24 the first permit for the online brokerage of state-operated instant lotteries (scratch cards). It now applies to the federal states of Lower Saxony, Saxony, Hesse and North Rhine-Westphalia, where the state lottery companies have also received a corresponding game permit. As a result, more than 50% of the adult German population already have access to scratch cards on the Internet. The permit will also expire on 30 June 2021 and still contains many restrictive and in part uncertain ancillary provisions and conditions. In addition, Lotto24 received a supplement to the existing brokerage permit on 8 February 2019 which enables it to broker tickets on the Tipp24.de and Tipp24.com domains to the state lottery companies via Lotto24. In addition, Lotto24 was granted permission on 5 February 2020 to broker the social lottery freiheit+ conducted by ZEAL. The supplement is subject both to the restrictions already contained in the brokerage permit and to the time limit of 30 June 2021. The current draft of the GlüStV 2021 provides for the extension of the existing licences of commercial gaming brokers until 30 June 2022.

## ADVERTISING PERMIT

On 27 February 2019, the German authority responsible for advertising standards, the District Government of Düsseldorf, prolonged the advertising permit of Lotto24 for the third time in a row. It is now valid until the GlüStV expires on 30 June 2021. The extension must always be requested and is not granted automatically. After receiving the extension, Lotto24 continues to be authorised to advertise the online marketing of state lotteries throughout Germany via the Internet and TV, thus driving the further expansion of its customer base. The renewal of the advertising permit and the resulting legal certainty it continues to provide, form the basis for the planned expansion of the Group's business and market share. According to the GlüStV 2021, there is no need for an advertising permit anymore.

## LEGAL DISPUTES AND REGULATORY PROCEEDINGS

ZEAL Group entities are parties in various legal proceedings in connection with different aspects of gambling and tax law. Lotto24 is conducting various court proceedings to review the legality of what it considers to be indeterminate and disproportionate restrictions. However, a final clarification of the fundamental questions is made more difficult by the two-year duration of the advertising permits. This short duration regularly leads to the loss of interest in legal protection as soon as new lawsuits against the subsequent permit become pending. In addition, the regulatory framework will change on 1 July 2021 when the GlüStV 2021 comes into force, which is a further hurdle for the successful continuation of the proceedings. We currently do not expect any material effects on future business from the ongoing proceedings.

The proceedings of Tipp24 Services Ltd and myLotto24 Ltd pending in the administrative courts have now all been settled amicably.

## MYLOTTO24 SUCCESSFULLY CONTESTS VAT ASSESSMENT

myLotto24 has successfully contested a VAT assessment in the fiscal court of Hanover relating to its former secondary lottery business in 2017. On 19 November 2019, the fiscal court of Hanover upheld myLotto24's claim against the VAT assessment. The relevant tax authority appealed the ruling. A decision by the Federal Fiscal Court is not expected before mid 2021.

In a previous decision on temporary relief, the fiscal court had dismissed myLotto24's application to order a stay of execution of VAT determined for the months May and June 2018 without the provision of security.

The effect of the two decisions on the other affected periods from January 2015 to mid-October 2019 was therefore the subject of discussions between myLotto24 and the relevant tax authority in Hanover, with which myLotto24 reached an agreement in December 2019 in order to eliminate the risk of default charges being levied and significantly reduce the scope of any interest payments. In January 2020, myLotto24 paid a partial amount of around €54 million in VAT relating to its former secondary lottery business without acknowledging any legal obligation.

ZEAL Network SE remains confident that the lawsuit brought by myLotto24 will be upheld in the final instance. In this case, the VAT paid plus interest (currently 6% p.a.) would be refunded to myLotto24.

## ECONOMIC CONDITIONS

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### LOTTERY COMPANIES RAISE PRICES

According to its own information, the German Association of State Lottery Companies (DLTB) is planning a price increase for its 'Lotto 6aus49' product in autumn 2020: one field of the lottery ticket 'Lotto 6aus49' will cost €1.20 in the future instead of its current price of €1.00.

We assume that this price change – similar to the last adjustment in May 2013 – will also have a positive overall effect on our business: we expect stakes for the 'Lotto 6aus49' product to rise and jackpots will grow much faster as a result of the change. This in turn will make the product more attractive and should also trigger a long-term positive revenue effect. However, the price increase might also change the playing behaviour of lotto customers or tempt them to migrate to the increasingly well established 'EuroJackpot' product.

## HUGE POTENTIAL OF ONLINE SEGMENT

70.2 million adults live in Germany, of whom 29.7 million play lotto occasionally or regularly<sup>1</sup>. This corresponds to almost 42% of all adult Germans. In our latest survey of 1,437 Internet users with an affinity for lotto in November/December 2019, 38% of respondents confirmed that they had played lotto in the last six months. It is interesting to note that (despite the new, slightly more conservative survey methodology) 51% of offline players surveyed – i.e. lotto players who still hand in their tickets at kiosks – can imagine playing lotto online in the future. Translated to 29.7 million lotto players, this represents a market potential of 15.1 million potential online lotto players. Based on the total volume of the German lottery market (DLTB plus class lotteries, 'Aktion Mensch' and 'Deutsche Fernsehlotterie') of around €8.7 billion<sup>2</sup>, this corresponds to potential total online lottery revenue of €4.4 billion.

Even though the German online lottery market has not yet reached the level of other European countries or comparable industries in the e-commerce sector, the development of recent years indicates a consistent upward trend – we are catching up. We believe that this growth is likely to continue in the coming years. This opinion is supported in particular by the following factors:

- As online lottery offerings were completely forbidden from 2009 to 2012, we expect further strong revenue growth. Compared with foreign online lottery markets, which were less strictly regulated in the past, we expect above-average growth for Germany in the medium term.
- While the online share of total German lottery sales in 2019 was only 14%<sup>3</sup>, in 2017, the online share of the lottery market in Sweden was just under 41%, in Finland around 33%, and in the United Kingdom around 26%<sup>4</sup>. The growing importance of e-commerce as a sales channel and mobile offerings are also strengthening this trend: in 2018, 50% of all banking was already done online<sup>5</sup>, 57% of music was sold online in 2018<sup>6</sup> and 43% of trips were booked online in 2018<sup>7</sup>.

<sup>1</sup>Source: IfD Allensbach © Statista 2019, 'Anzahl der Personen in Deutschland, die Lotto oder Toto spielen, nach Häufigkeit von 2015 bis 2019 (in Millionen)'

<sup>2</sup>Source: Goldmedia 'Gambling Market Monitor 2018'

<sup>3</sup>Source: According to German Association of State Lottery Companies ('Deutscher Lotto- und Totoblock, DLTB') and Deutscher Lottoverband (DLV)

<sup>4</sup>Source: H2 Gambling Capital data; excluding ODDSET

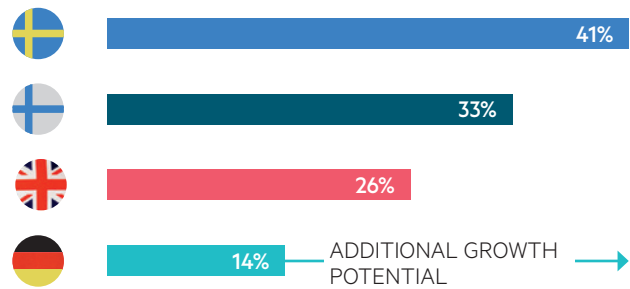
<sup>5</sup>Source: Bankenverband, 'Jeder zweite Bundesbürger nutzt Online-Banking', June 2018

<sup>6</sup>Source: Bundesverband Musikindustrie, 'Musikindustrie in Zahlen 2018'

<sup>7</sup>Source: DRV, 'Der deutsche Reisemarkt Zahlen und Fakten 2018', July 2019

<sup>8</sup>Source: Full year Lotto24 billings as well as Tipp24 billings only since the Business Model Change on 15 October 2019

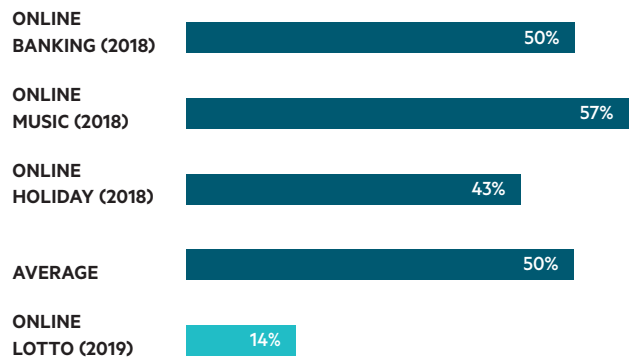
## MARKET POTENTIAL<sup>1,2</sup>



<sup>1</sup>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)

<sup>2</sup>Based on 2017 estimates

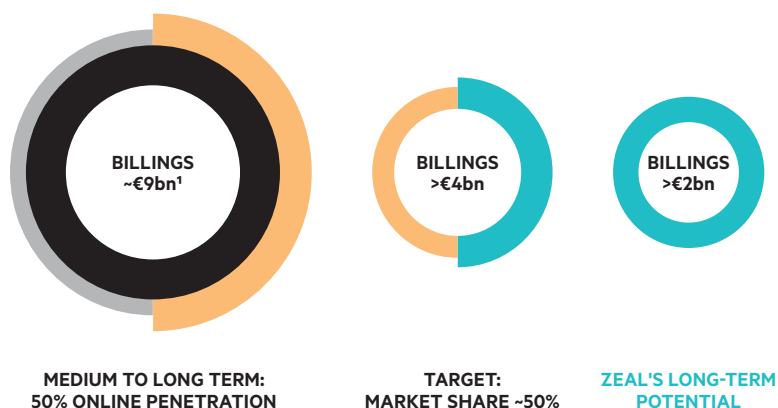
## ONLINE MARKET SHARES



Source: Bankenverband, Bundesverband Musikindustrie, DRV, DLTB, DLV

Based on a medium to long-term assumption of an online share of 50% of the total German lottery market of €8.7 billion, this would also result in an online lottery market potential of more than €4 billion. As our objective is to further expand our own market share of 35%<sup>8</sup> in 2019 to 50% or more, our long-term billings potential would lie beyond the €2 billion mark.

## OUR VISION



<sup>1</sup> Source: Total German lottery market volume of €8.7bn in 2017A as per Goldmedia, including other lotteries such as Class Lotteries, Aktion Mensch and Deutsche Fernsehlotterie.

## ADVERTISING AND COMPETITION

Our success is largely determined by the scope and efficiency of our marketing measures – especially new customer acquisition. In addition to the regulatory conditions, our key performance indicators (KPIs) are also influenced by the number of competitors aggressively advertising their online lottery services. Our main competitors are the state lottery companies, with their joint platform Lottode, and foreign secondary lottery companies which are not permitted to operate in Germany.

According to information of the relevant Ministry of the Interior for Lower Saxony, 16 private commercial gaming brokers had valid brokerage permits at the end of the reporting period – in addition to the state-owned companies. As before, the advertising activities of our private competitors with permits in Germany as a whole, as well as from secondary lottery providers with neither a German brokerage nor corresponding advertising permit, were quite modest in the first half of 2020. The advertising pressure from the latter has declined, due to both a stricter approach by the relevant regulatory authorities and competition law proceedings brought by certain state lottery companies.

We monitor our relevant competitors, for example, by regularly and systematically testing the respective websites. In addition, we use media monitoring and social media monitoring to gather and evaluate social signals of Internet users with regard to specific sectors, brands or defined websites. This enables us to discover what this target group thinks about us and our competitors so that we can react accordingly. In the course of our brand tracking activities, we also regularly collect information on our competitors. We do not therefore rely solely on our own subjective perception, but also use customer surveys when defining the direction in which we want to evolve and how we can clearly differentiate ourselves from the competition.

## STRONGER 'EUROJACKPOT' DEVELOPMENT THAN IN THE PREVIOUS YEAR

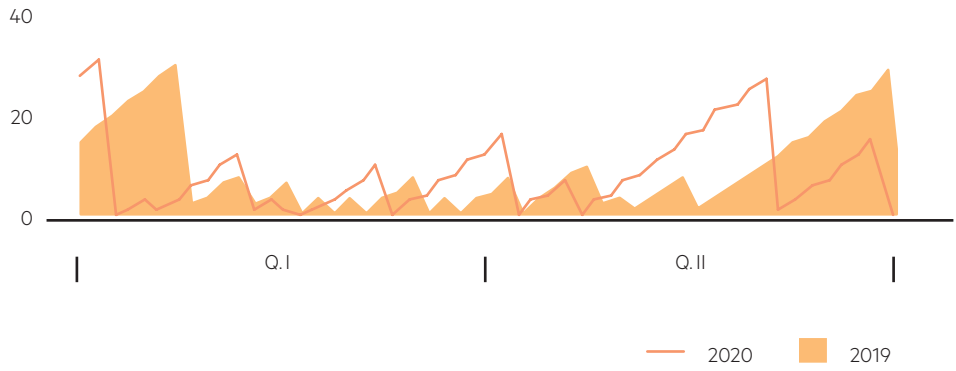
Jackpots are a major driver of our billings volume. We expect particularly strong increases in the activity rate and number of registered customers when potential players have greater expectations of exceptional winnings, in other words whenever there are large jackpots.

In the first half of 2020, the jackpot development of the individual lotteries varied: the average lottery jackpot of the German Lotto 6aus49 lottery of €9.4 million including two jackpots over €20 million (2019: two) was slightly below the previous year's figure (2019: €9.5 million). With an average jackpot amount of €51.2 million (2019: €35.3 million), the European Lottery Euro-Jackpot 2020 reached the €90 million mark in six draws and thus developed significantly better than in the same period of the previous year, in which the €90 million mark was reached in only one draw.

**JACKPOT DEVELOPMENT LOTTO 6AUS49 AND EUROJACKPOT**

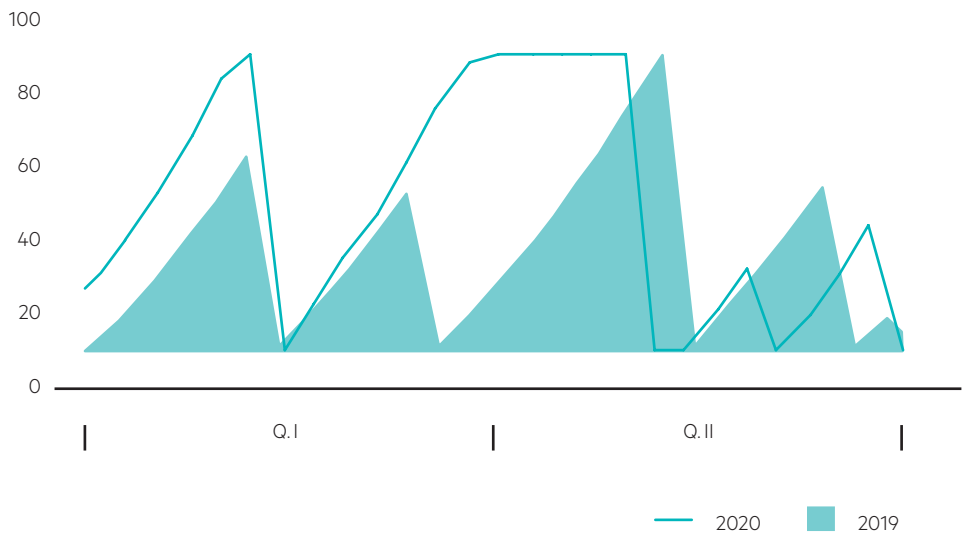
**Lotto 6aus49**

in € million



**EuroJackpot**

in € million



## POSITION

Summary financial results and key performance indicators:

Summary financial results	H 1 2020	H 1 2019
in € thousand		
Revenue	43,296	77,461
Other operating income	1,048	1,812
Personnel expenses	(11,195)	(11,172)
Other operating expenses	(30,073)	(36,834)
Marketing expenses	(18,328)	(11,037)
Direct operating expenses	(4,903)	(17,741)
Indirect operating expenses	(6,842)	(8,056)
Exchange rate differences	174	(63)
<b>Adjusted EBITDA</b>	<b>3,250</b>	<b>31,204</b>
Non-recurring expenses and income	(108)	(7,357)
<b>EBITDA</b>	<b>3,142</b>	<b>23,847</b>
Amortisation and depreciation	(5,164)	(2,500)
<b>EBIT</b>	<b>(2,022)</b>	<b>21,347</b>
<b>Key Performance Indicators</b>		
Billings (in € thousand)	314,433	179,391
Revenue (in € thousand)	43,296	77,461
Adjusted EBITDA (in € thousand)	3,250	31,204
Gross margin, Germany segment (%)	12.4	-
Number of new registered customers, Germany segment (in thousand)	593	-
CPL, Germany segment (in €)	27.13	-

The takeover of Lotto24 in May 2019, and the closure of the secondary lottery business and switch to online lottery brokerage in October 2019, makes comparison between the 2019 and 2020 results difficult. The 2019 comparatives include the results from secondary lottery from 1 January 2019 to 30 June 2019 and the results of Lotto24 AG from 14 May 2019, whilst the 2020 results reflect the online lottery brokerage business from 1 January 2020 to 30 June 2020.

### REVENUE

Revenue for the six-month period ended 30 June 2020 decreased by €34,165 thousand to €43,296 thousand (2019: €77,461 thousand).

The decrease in revenue is primarily driven by the closure of the secondary lottery business in October 2019. Revenue is comprised of the gross margin for the Germany segment which was 12.4% for the six-months ended 30 June 2020.

### PERSONNEL EXPENSES

Personnel expenses for the six-month period ended 30 June 2020 saw a minor increase of €23 thousand to €11,195 thousand (2019: €11,172 thousand). The increase is due to an increase in the provision for long term incentives, reflecting the increased level of the ZEAL share price at 30 June 2020. This offset the decrease in personnel expenses caused by the decrease in the number of employees.

The average number of full time equivalent (FTE) employees (excluding students) decreased from 216 to 165.

## OTHER OPERATING EXPENSES

Other operating expenses for the six-month period ended 30 June 2020 decreased by €6,761 thousand to €30,073 thousand (2019: €36,834 thousand). The most significant contributory factors were:

- Increase in marketing expenses of €7,291 thousand which is primarily driven by additional marketing activities during Q2 2020. The increase in marketing expense is driven by a rise in marketing activity following the Business Model Change and the improved regulatory environment for an online lottery broker. This allows the Group to increase its marketing activity and acquire more customers still with a competitive CPL in comparison to the secondary lottery business. In addition, the Group benefited from a high jackpot environment and took advantage of its online operations during the COVID-19 restrictions.
- Decrease in direct operating expenses of €12,838 thousand which is mainly due to the Business Model Change. Following the closure of the Group's secondary lottery business the Group no longer incurs the costs of covering bookmaking risk. This has resulted in a €12,438 thousand decrease in direct operating expenses. The Business Model Change has also resulted in the reduction of non-deductible VAT by €982 thousand. The remaining movement is due to a €581 thousand increase in payment processing costs in line with the increase in billings.
- Decrease in indirect operating expenses of €1,214 thousand, which is primarily driven by a €476 thousand decrease in legal and advisory costs and a €275 thousand decrease in travel and training. The remaining movement is due to various immaterial decreases in other line items.

## NON-RECURRING EXPENSES

Non-recurring expenses for the six-month period ended 30 June 2020 were €108 thousand (2019: €7,357 thousand) and relate to legal advice (€68 thousand) and employee severance (€40 thousand). Non-recurring expenses incurred in the six-month period ended 30 June 2019 mainly related to the takeover of Lotto24 (€1,950 thousand) and restructuring activities (€5,907 thousand). This was offset by the release of €500 thousand of costs in relation to the closure of Ventura24 S.L.U.'s consumer facing business, which were provided for at 31 December 2018 but not required.

## AMORTISATION AND DEPRECIATION

Amortisation and depreciation expense for the six-month period ended 30 June 2020 has increased by €2,664 thousand to €5,164 thousand (2019: €2,500 thousand). The increase is driven by the amortisation of intangible assets recognised following the takeover of Lotto24 being recognised for the full six-month period in 2020 compared to one-and-a-half months in the comparative period.

## KEY PERFORMANCE INDICATORS

Billings for the six-month period ended 30 June 2020 increased by €135,042 thousand to €314,433 thousand (2019: €179,391 thousand). The increase is primarily due to the inclusion of Lotto24 billings in the numbers for 2020 and a strong performance in the Group's online operations especially thanks to a favourable jackpot situation.

Due to the successful launch of our new social lottery, *freiheit+*, and the positive development of lottery clubs, the Germany segment achieved a gross margin of 12.4% for the six-month period ended 30 June 2020. In addition, the launch of *freiheit+* in March 2020 contributed to the gross margin increasing from 12.1% for the three months ended 31 March 2020 to 12.6% for the three months ended 30 June 2020.

In the Germany segment, we were able to acquire 593 thousand new registered customers in the first half of 2020, with a CPL of €27.13 (2019: no Germany segment). We are pleased to report that our monthly active users (MAU)<sup>1</sup> and average billings per user (ABPU)<sup>2</sup> for the Germany segment reached 1,003 thousand and €52.13 respectively for the six month period ended 30 June 2020 (2019: no Germany segment). MAU increased in the three months ended 30 June 2020 by 123 thousand to 1,065 thousand on average from 942 thousand for the three months ended 31 March 2020. ABPU increased in the three months ended 30 June 2020 by €5.02 to €54.48 from €49.46 for the three months ended 31 March 2020. This shows the positive impact the increased marketing spend has had on our customer acquisition.

<sup>1</sup> MAU (monthly average active users) is the number of unique users who have either purchased a ticket or participated in a draw in a given month (including free bets) provides a measure of the Group's ability to retain and attract new customers.

<sup>2</sup> ABPU (average billings per user per month) 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 and provides a measure of the Group's ability to increase loyalty and value from our customers.

## CASH FLOW

in € thousand	<b>H 1 2020</b>	H 1 2019
Cash (used in)/generated from operating activities	(68,076)	11,860
Cash generated from investing activities	1,671	5,781
Cash used in financing activities	(19,455)	(2,004)
<b>Changes in cash, pledged cash and cash equivalents</b>	<b>(85,860)</b>	<b>15,637</b>
Cash, pledged cash and cash equivalents at the beginning of the period <sup>1</sup>	153,280	145,887
<b>Cash, pledged cash and cash equivalents at the end of the period<sup>1</sup></b>	<b>67,420</b>	<b>161,524</b>

<sup>1</sup> In line with IFRS, for the purpose of the statement of cash flows, cash equivalents at the beginning of the period exclude €2,925 thousand (2019: nil) invested in equity funds. Cash equivalents at 30 June 2019 exclude €2,916 thousand invested in equity funds.

Cash used in operating activities for the six-month period ended 30 June 2020 was €68,076 thousand (2019: cash inflow of €11,860 thousand). The cash outflow was primarily due to the interim VAT payment of €54,316 thousand made in January 2020. The payment was made – despite the first instance ruling in favour of myLotto24 and without acknowledging any legal obligation – to reduce the amount of potential interest payments and to eliminate the risk of potential fines for late payment of taxes. The difference is further driven by the €6,528 thousand tax payment and the €4,311 thousand payments of employee severance.

Cash generated from investing activities for the six-month period ended 30 June 2020 was €1,671 thousand (2019: €5,781 thousand). The inflow is primarily attributable to the sale of €2,925 thousand (2019: cash outflow of €2,975 thousand) of equity funds which were converted into cash on sale. This was offset by €376 thousand invested in associates (2019: €350 thousand), and €849 thousand (2019: nil) paid to acquire non-controlling interests.

In the area of ZEAL Ventures the Group invested an additional €235 thousand in the early stage start-up 'Furlong' increasing its investment from 20% as at 31 December 2019 to 24.8% as at 30 June 2020. Following the increase, the investment is accounted for as an investment in an associate using the equity method in the Consolidated Financial Statements. In addition, the Group invested an additional €141 thousand in TH Travel Limited (owner of the experience-based travel lottery 'Trip Hunters'), this resulted in its investment increasing from 33% as at 31 December 2019 to 35.2% as at 30 June 2020.

Cash used in financing activities for the six-month period ended 30 June 2020 was €19,455 thousand (2019: €2,004 thousand). The outflow relates to a dividend payment of €17,887 thousand (2019: nil) and lease payments of €1,568 thousand (2019: €1,354 thousand) made for the Group's offices in London and Hamburg.

As of 30 June 2020, cash, pledged cash and cash equivalents decreased by €94,104 thousand to €67,420 thousand (2019: €161,524 thousand).

## ASSETS

in € thousand	<b>As at 30 June 2020</b>	As at 31 December 2019
Total non-current assets	398,350	347,135
Total current assets	79,189	173,998
<b>Total assets</b>	<b>477,539</b>	<b>521,133</b>

Total non-current assets increased by €51,215 thousand from €347,135 thousand at 31 December 2019 to €398,350 thousand at 30 June 2020. The increase is primarily driven by the interim VAT payment of €54,316 thousand which has been recognised as a receivable as the Group believes it is more likely than not that the ongoing legal case will be successfully concluded. This was offset by a reduction in intangible assets of €3,968 thousand as assets were amortised over their useful economic life.



Total current assets decreased by €94,809 thousand from €173,998 thousand at 31 December 2019 to €79,189 thousand at 30 June 2020. The change was driven by the decrease in cash and pledged cash of €48,696 thousand and the decrease in cash equivalents and other short-term equity funds of €40,089 thousand, which were primarily driven by the €54,316 thousand interim VAT payment and the €17,887 thousand dividend payment made in June 2020. In addition, trade receivables and other current assets decreased from €17,741 thousand at 31 December 2019 to €11,678 thousand.

Trade receivables and other current assets at 30 June 2020 and 31 December 2019 were comprised of the following:

	<b>As at 30 June 2020</b>	As at 31 December 2019
in € thousand		
Receivables from lottery companies, payment systems and customers	2,489	13,438
Provision for expected credit loss/doubtful debt	(471)	(484)
Security retainers	2,617	1,433
Other debtors	3,657	1,300
Prepayments and accrued income	1,276	1,742
VAT receivable	2,110	312
<b>Total trade receivables and other current assets</b>	<b>11,678</b>	<b>17,741</b>

The decrease in trade receivables and other current assets is driven by a fall in receivables from lottery operators, payment systems and customers by €10,949 thousand, offset by a €2,357 thousand increase in other debtors and a €1,798 thousand increase in VAT receivable.

## LIABILITIES

	<b>As at 30 June 2020</b>	As at 31 December 2019
in € thousand		
Total non-current liabilities	63,419	65,499
Total current liabilities	25,883	49,909
<b>Total liabilities</b>	<b>89,302</b>	<b>115,408</b>

Total non-current liabilities decreased by €2,080 thousand from €65,499 thousand at 31 December 2019 to €63,419 thousand at 30 June 2020. The decrease is driven by a €1,119 thousand decrease in deferred tax liabilities and a €1,062 thousand decrease in long-term lease liabilities.

Total current liabilities decreased by €24,026 thousand from €49,909 thousand at 31 December 2019 to €25,883 thousand at 30 June 2020. The decrease is primarily driven by the decrease in other current liabilities from €30,150 thousand at 31 December to €18,191 thousand at 30 June 2020.

Other current liabilities at 30 June 2020 and 31 December 2019 were comprised of the following:

	<b>As at 30 June 2020</b>	As at 31 December 2019
in € thousand		
Accrued liabilities	3,588	5,308
Liabilities to customers and game brokers	9,715	21,455
Liabilities from gaming duty	-	9
Employee benefits	1,514	607
VAT payable	3,125	1,835
Payroll related taxes and social security payable	249	936
<b>Total other current liabilities</b>	<b>18,191</b>	<b>30,150</b>

The decrease in other current liabilities is primarily driven by a €11,740 thousand decrease in liabilities to customers and game brokers. This balance comprises obligations to our customers and the state lottery companies. It also includes small winnings which customers leave on their gaming accounts and use later.

Following the settlement of the 2019 corporation tax liabilities the income tax liabilities decreased from €6,886 thousand to €728 thousand. Short term provisions decreased from €6,562 thousand at 31 December 2019 to €2,337 thousand at 30 June 2020, the decrease is driven by the payment of severance costs.

## REPORT ON EXPECTED DEVELOPMENTS AND ASSOCIATED MATERIAL OPPORTUNITIES AND RISKS

### OPPORTUNITIES AND RISKS

We have reported extensively on the expected development with its main opportunities and risks in the Group Management Report 2019. There were no significant changes in the opportunities and risks as of 30 June 2020.

### FORECAST REPORT

#### EXPECTED EARNINGS POSITION

In fiscal year 2020, we plan to continue expanding our market leadership as an online provider of state lottery products with the Lotto24 and Tipp24 brands. Due to the strong half-year figures, we now expect billings of between €590 million and €610 million (2019: between €550 million and €570 million), revenue of between €76 million and €79 million (2019: between €70 million and €73 million) and a gross margin in the Germany segment of slightly above 12% (2019: around 12%) in fiscal year 2020. Depending on the general conditions, in particular the jackpot development, the continuation of the high marketing investments for the acquisition of new customers and the implementation of the synergy effects, we expect the adjusted EBITDA to be between €7 million and €10 million (2019: between €5 million and €8 million). Due to access to proven, more cost-effective marketing channels, we expect the number of new registered customers to be around 800 thousand in the Germany segment in 2020 (2019: almost twice as many new registered customers as in the previous year with 274 thousand) with a lower CPL than in the previous year.

	2020	2020	2019 <sup>1</sup>
	Guidance NEW	Guidance OLD	Actual
Billings (€ million)	590–610	550–570	466.7
Revenue (€ million)	76–79	70–73	113.5
Adjusted EBITDA (€ million) <sup>2</sup>	7–10	5–8	29.4
Gross margin (Germany segment, %)	Slightly above 12	Around 12	24.3
CPL (Germany segment, €)	Lower than previous year	Lower than previous year	32.50
New registered customers (Germany segment, thousand) <sup>3</sup>	Around 800 thousand	Almost twice as many new customers	274

<sup>1</sup> Including Lotto24 since 14 May 2019, German secondary lottery business up to 15 October 2019 and Tipp24 online lottery brokerage business beginning with 15 October 2019.

<sup>2</sup> Result from operating activities before amortisation, depreciation and non-recurring expenses.

<sup>3</sup> Related to the Germany business of the ZEAL Group; 2019: including Lotto24 since 14 May 2019 and Tipp24 only since the Business Model Change on 15 October 2019.

## OVERALL STATEMENT ON THE EXPECTED DEVELOPMENT OF ZEAL NETWORK SE

We have many years of sector and management experience, an attractive range of products and services, and are well positioned as market leader in the growing online lottery market. We believe we are well prepared for the future and are confident that we can not only consolidate and extend our lead as Germany's leading online provider of lottery products but also benefit from the huge potential of the online lottery segment.

Hamburg, 12 August 2020

The Management Board

# INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## INTERIM CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2020 AND 30 JUNE 2019

	H 1 2020	H 1 2019	Q2 2020	Q2 2019
in € thousand				
Revenue	43,296	77,461	24,272	40,999
Other operating income	1,048	1,812	634	901
Personnel expenses	(11,195)	(11,172)	(6,241)	(5,664)
Other operating expenses	(30,073)	(36,834)	(18,312)	(17,323)
Marketing expenses	(18,328)	(11,037)	(11,774)	(5,880)
Direct operating expenses	(4,903)	(17,741)	(2,916)	(7,093)
Indirect operating expenses	(6,842)	(8,056)	(3,622)	(4,350)
Exchange rate differences	174	(63)	65	90
Non-recurring expenses	(108)	(7,357)	-	(5,565)
<b>Results from operating activities before interest, taxes, depreciation and amortisation (EBITDA)</b>	<b>3,142</b>	<b>23,847</b>	<b>418</b>	<b>13,438</b>
Amortisation/depreciation on intangible assets and property, plant and equipment	(4,554)	(1,708)	(2,214)	(1,439)
Depreciation of right of use assets	(610)	(792)	(268)	(428)
<b>Result from operating activities (EBIT)</b>	<b>(2,022)</b>	<b>21,347</b>	<b>(2,064)</b>	<b>11,571</b>
Income from financial activities	2,536	119	1,429	89
Expenses from financial activities	(307)	(310)	(124)	(168)
(Loss)/gain on financial assets	(327)	245	766	72
<b>Financial result</b>	<b>1,902</b>	<b>54</b>	<b>2,071</b>	<b>(7)</b>
Share of loss from associates	(95)	(14)	(34)	(14)
<b>Net (loss)/profit before taxes</b>	<b>(215)</b>	<b>21,387</b>	<b>(27)</b>	<b>11,550</b>
Income taxes	592	(7,067)	252	(4,116)
<b>Net profit</b>	<b>377</b>	<b>14,320</b>	<b>225</b>	<b>7,434</b>
Attributable to				
Equity shareholders of the Company	397	14,296	285	7,410
Non-controlling interest	(20)	24	(60)	24
<b>Earnings per share for profit attributable to ordinary equity holders of the Company</b>	€	€	€	€
Basic and diluted earnings per share (in €/share)	0.02	1.21	0.02	0.46

**INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE SIX MONTHS ENDED 30 JUNE 2020 AND 30 JUNE 2019**

	<b>Q 1 2020</b>	Q 1 2019	<b>Q 1 2020</b>	Q 1 2019
in € thousand				
<b>Net profit</b>	<b>377</b>	<b>14,320</b>	<b>225</b>	<b>7,434</b>
<b>Other comprehensive income</b>				
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	559	626	2	492
Items that may be reclassified to profit or loss in subsequent periods				
Exchange differences on translation of foreign operations, net of tax	-	-	-	-
<b>Other comprehensive income after taxes</b>	<b>559</b>	<b>626</b>	<b>2</b>	<b>492</b>
<b>Total comprehensive income after taxes</b>	<b>936</b>	<b>14,946</b>	<b>227</b>	<b>7,926</b>
Attributable to				
Equity shareholders of the Company	956	14,922	287	7,902
Non-controlling interest	(20)	24	(60)	24

**INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 30 JUNE 2020 AND 31 DECEMBER 2019**

	<b>As at 30 June 2020</b>	As at 31 December 2019
<b>ASSETS</b> in € thousand		
<b>Non-current assets</b>		
Property plant and equipment	1,306	1,786
Right of use assets	5,458	8,478
Goodwill	160,886	160,886
Intangible assets	148,123	152,091
Deferred tax assets	18,344	18,474
Other investments	4,636	4,137
Shares in associated companies	969	629
Other assets and prepaid expenses	58,628	654
<b>Total non-current assets</b>	<b>398,350</b>	<b>347,135</b>
<b>Current assets</b>		
Income tax receivable	91	52
Trade receivables and other current assets	11,678	17,741
Cash equivalents and other short-term equity funds	32,422	72,511
Cash and pledged cash	34,998	83,694
<b>Total current assets</b>	<b>79,189</b>	<b>173,998</b>
<b>TOTAL ASSETS</b>	<b>477,539</b>	<b>521,133</b>

	<b>As at 30 June 2020</b>	As at 31 December 2019
<b>EQUITY &amp; LIABILITIES</b> in € thousand		
<b>Non-current liabilities</b>		
Deferred tax liabilities	52,137	53,256
Other non-current liabilities	1,213	1,026
Long-term provisions	2,274	2,360
Lease liabilities	7,795	8,857
<b>Total non-current liabilities</b>	<b>63,419</b>	<b>65,499</b>
<b>Current liabilities</b>		
Trade payables	2,439	3,838
Other current liabilities	18,191	30,150
Deferred income	118	24
Income tax liabilities	728	6,886
Short-term provisions	2,337	6,562
Lease liabilities	2,070	2,449
<b>Total current liabilities</b>	<b>25,883</b>	<b>49,909</b>
<b>Equity</b>		
Subscribed capital	22,396	22,396
Share premium	280,132	280,132
Treasury shares	(1,591)	(1,903)
Other reserves	1,433	874
Foreign currency translation reserve	-	164
Retained earnings	77,885	95,674
<b>Equity attributable to equity holders of the parent</b>	<b>380,255</b>	<b>397,337</b>
Non-controlling interest	7,982	8,388
<b>Total equity</b>	<b>388,237</b>	<b>405,725</b>
<b>TOTAL EQUITY &amp; LIABILITIES</b>	<b>477,539</b>	<b>521,133</b>

**INTERIM CONSOLIDATED CASH FLOW STATEMENT  
FOR THE SIX MONTHS ENDED 30 JUNE 2020 AND 30 JUNE 2019**

	H 1 2020	H 1 2019
in € thousand		
Net (loss)/profit before taxes	(215)	21,387
Adjustments for		
Amortisation/depreciation	4,554	1,708
Depreciation of right of use assets	610	792
Income from financial activities	(2,536)	(119)
Expenses from financial activities	107	135
Expenses from financial activities – lease liabilities	200	175
Other non-cash expenses/income	(443)	(362)
Changes in		
Trade receivables and other assets	(47,401)	3,111
Trade payables	(1,399)	(2,179)
Other liabilities	(11,772)	(1,773)
Financial liabilities	-	(17)
Deferred income	94	(1,135)
Provisions	(4,311)	(1,758)
Interest received	1,271	119
Interest paid	(107)	(135)
Interest paid on lease liabilities	(200)	(175)
Income taxes paid	(6,528)	(7,914)
<b>Cash (outflow)/inflow from operating activities</b>	<b>(68,076)</b>	<b>11,860</b>



	<b>H 1 2020</b>	H 1 2019
in € thousand		
<b>Cash flow from investing activities</b>		
Acquisition of intangible assets	(9)	(13)
Acquisition of property, plant and equipment	(20)	(59)
Payments for acquisition of associates	(376)	(350)
Income/(payment) for investment in equity funds	2,925	(2,975)
Payments made to acquire non-controlling interest	(849)	-
Payments for investments in external investments	-	(170)
Acquisition of a subsidiary, net of cash acquired	-	9,348
<b>Net cash inflow from investing activities</b>	<b>1,671</b>	<b>5,781</b>
Payments for lease liability	(1,568)	(1,354)
Payment of dividends	(17,887)	-
Payments to issue shares	-	(650)
<b>Net cash outflow from financing activities</b>	<b>(19,455)</b>	<b>(2,004)</b>
Change in available funds	(85,860)	15,637
Available funds at the beginning of the period	153,280	145,887
<b>Available funds at the end of the period</b>	<b>67,420</b>	<b>161,524</b>
<b>Composition of cash, pledged cash and cash equivalents</b>		
Cash and pledged cash	34,998	130,447
Cash equivalents	32,422	31,077
<b>Cash, pledged cash and cash equivalents at the end of the financial period</b>	<b>67,420</b>	<b>161,524</b>

**INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2019 AND FOR THE SIX MONTHS ENDED 30 JUNE 2020  
AND 30 JUNE 2019**

	Subscribed capital	Share premium	Treasury shares	Other reserves	Currency translation adjust- ments	Retained earnings	Equity attribut- able to equity holders of the parent	Non-con- trolling interest	Total equity
in € thousand									
<b>As at 1 January 2019</b>	<b>8,385</b>	<b>21,578</b>	<b>(1,903)</b>	<b>227</b>	<b>201</b>	<b>94,418</b>	<b>122,906</b>	<b>-</b>	<b>122,906</b>
Transactions with owners in their capacity as owners									
Capital increase to acquire Lotto24	14,011	258,554	-	-	-	-	272,565	8,403	280,968
Purchase of non-controlling interest	-	-	-	-	-	(115)	(115)	(168)	(283)
Net profit	-	-	-	-	-	14,296	14,296	24	14,320
Other comprehensive income	-	-	-	626	-	-	626	-	626
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>626</b>	<b>-</b>	<b>14,296</b>	<b>14,922</b>	<b>24</b>	<b>14,946</b>
<b>As at 30 June 2019</b>	<b>22,396</b>	<b>280,132</b>	<b>(1,903)</b>	<b>853</b>	<b>201</b>	<b>108,599</b>	<b>410,278</b>	<b>8,259</b>	<b>418,537</b>
Net (loss)/profit	-	-	-	-	-	(12,836)	(12,836)	234	(12,602)
Other comprehensive income	-	-	-	21	(37)	37	21	-	21
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>21</b>	<b>(37)</b>	<b>(12,799)</b>	<b>(12,815)</b>	<b>234</b>	<b>(12,581)</b>
Transactions with owners in their capacity as owners									
Purchase of non-controlling interest	-	-	-	-	-	(126)	(126)	(105)	(231)
<b>As at 31 December 2019</b>	<b>22,396</b>	<b>280,132</b>	<b>(1,903)</b>	<b>874</b>	<b>164</b>	<b>95,674</b>	<b>397,337</b>	<b>8,388</b>	<b>405,725</b>
Transactions with owners in their capacity as owners									
Purchase of non-controlling interest	-	-	-	-	-	(463)	(463)	(386)	(849)
Treasury shares sold	-	-	312	-	-	-	312	-	312
Dividend payment	-	-	-	-	-	(17,887)	(17,887)	-	(17,887)
Net loss	-	-	-	-	-	397	397	(20)	377
Other comprehensive income/(loss)	-	-	-	559	(164)	164	559	-	559
<b>Total comprehensive income/(loss) for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>559</b>	<b>(164)</b>	<b>561</b>	<b>956</b>	<b>(20)</b>	<b>936</b>
<b>As at 30 June 2020</b>	<b>22,396</b>	<b>280,132</b>	<b>(1,591)</b>	<b>1,433</b>	<b>-</b>	<b>77,885</b>	<b>380,255</b>	<b>7,982</b>	<b>388,237</b>

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE PERIOD FROM 1 JANUARY TO 30 JUNE 2020

## 1. GENERAL INFORMATION

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The unaudited Interim Financial Statements for ZEAL Network SE (the 'Company') and its subsidiaries (collectively, 'ZEAL Group' or 'the Group') cover the period from 1 January 2020 to 30 June 2020. The date of the Interim Consolidated Statement of Financial Position is 30 June 2020.

### BASIS OF PREPARATION

These present condensed Interim Financial Statements for the first six months of 2020 (reporting period: 1 January 2020 to 30 June 2020) of the Group

- have been prepared in accordance with IAS 34 'Interim Financial Reporting', taking into account the valid IFRS standards and IFRIC interpretations of the International Accounting Standards Board (IASB) as applicable in the EU, and the interpretations of the IFRS Interpretations Committee valid on the balance sheet date,
- do not include all information and disclosures required for Consolidated Financial Statements under IFRS and are therefore to be read in conjunction with the Consolidated Financial Statements as of 31 December 2019,
- have not been audited nor been subjected to an auditor's review,

The Interim Financial Statements and the Interim Management Report have been approved for publication by a resolution of the Management Board on 12 August 2020.

## 2. SEGMENT REPORTING

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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 Management Board. Following the takeover of Lotto24 on 14 May 2019 and the Business Model Change on 15 October 2019, the Group has reviewed its reportable operating segments and determined that the following segments should be used from 1 January 2020.

### GENERAL ACCOUNTING PRINCIPLES

The same accounting policies were used for these Interim Financial Statements as for the Consolidated Financial Statements as of 31 December 2019 in which the corresponding details are also provided.

Other amendments to standards had no impact on the Group's accounting methods.

Unless noted otherwise, amounts are stated in thousands of euros (€ thousand), which may result in rounding differences in individual cases.

### Germany

This operating segment comprises the results of the Group's online lottery brokerage business in Germany. It also includes the results of the social lottery freiheit+ in Germany. Its cost base includes direct operational costs as well as the Group's shared costs.

### Other

This operating segment comprises the elements of our businesses which are focused on operating primary lotteries with national permits, our international services business for lottery operators, and investments in early stage start-ups.

## 2019 Comparatives

The 2019 comparatives have been restated so that they are prepared on the same basis as the 2020 note. This has resulted in shared costs being reallocated from the Other segment (previously called Lottovate) to the Germany and Lottery Betting segments. This has decreased the negative EBITDA from €2,285 thousand in the Lottovate segment to €179 thousand in the Other segment.

The 2019 segmental disclosure includes a third operating segment; the Lottery Betting segment. This comprises the results of 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. The Group transitioned its secondary lottery betting business in Germany to a licenced online lottery brokerage model on 15 October 2019. Following this, its international secondary lottery business was transferred to the Other segment and the lottery betting segment no longer reported to the CODM on a standalone basis.

The 2019 Lottery Betting segment has been restated to show actual rather than normalised results and to reflect the apportionment of shared costs in 2020. This has resulted in EBITDA decreasing from €29,056 thousand to €23,099 thousand.

The discontinuance of the secondary lottery business in Germany is not considered to meet the IFRS definition of a discontinued operation, as the Group continues to provide the same customers in Germany on the basis of the brokerage licence granted by the German gambling authorities with the products of the German Association of State Lottery Companies (DLTB) for a brokerage fee without carrying any bookmaking risk. Prior to the Business Model Change the Group was a bookmaker and also offered customers the chance to bet on the outcome of German and some international lotteries. Following the Business Model Change, the Group is primarily a broker which offers DLTB tickets to its customers.

## Business unit segment reporting

H1 2020	Germany	Lottery Betting	Other	Total
in € thousand				
Revenue	38,978	-	4,318	43,296
Other operating income	1,063	-	(15)	1,048
Personnel expenses	(10,503)	-	(692)	(11,195)
Other operating expenses and exchange rate differences	(28,035)	-	(1,864)	(29,899)
Non-recurring expenses	(108)	-	-	(108)
<b>EBITDA</b>	<b>1,395</b>	<b>-</b>	<b>1,747</b>	<b>3,142</b>
Amortisation/depreciation	-	-	-	(5,164)
<b>EBIT</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(2,022)</b>
Financial result	-	-	-	1,902
Share of loss from associates	-	-	-	(95)
<b>Net loss before taxes</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(215)</b>
Income taxes	-	-	-	592
<b>Net profit</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>377</b>

Billings for the Germany segment were €313,825 thousand and €608 thousand for the Other segment.

<b>H1 2019 Restated</b>	Germany	Lottery Betting	Other	<b>Total</b>
in € thousand				
Revenue	6,499	68,169	2,793	77,461
Other operating income	52	1,777	(17)	1,812
Personnel expenses	(1,325)	(8,190)	(1,657)	(11,172)
Other operating expenses and exchange rate differences	(3,390)	(31,738)	(1,769)	(36,897)
Non-recurring expenses	(909)	(6,919)	471	(7,357)
<b>EBITDA</b>	<b>927</b>	<b>23,099</b>	<b>(179)</b>	<b>23,847</b>
Amortisation/depreciation	-	-	-	(2,500)
<b>EBIT</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>21,347</b>
Financial result	-	-	-	54
Share of loss from associates	-	-	-	(14)
<b>Net loss before taxes</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>21,387</b>
Income taxes	-	-	-	(7,067)
<b>Net profit after taxes</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>14,320</b>

### 3. TAX

The tax calculation of the Group is based on an effective tax rate which suitably reflects the forecasted tax expense for the full year.

	<b>H 1 2020</b>	H 1 2019
in € thousand		
Current income tax expense	(396)	(7,666)
Deferred tax income	988	599
<b>Total income/(expense) tax</b>	<b>592</b>	<b>(7,067)</b>

Deferred tax income is a result of the release of the deferred tax liability associated with intangible assets recognised on acquisition of Lotto24 AG. The release offsets the tax impact of the amortisation of the acquired intangible assets.

### 4. CONTINGENT LIABILITY

The Management Board continue to closely monitor any changes in areas where a contingent liability has been previously disclosed. As disclosed in note 27 of the Notes to the 2019 Consolidated Financial Statements, there is significant uncertainty as to whether VAT is due in respect of certain services provided by the myLotto24 Sub-Group. If myLotto24 is unsuccessful, the potential financial impact at 30 June 2020 is €75.9 million (31 December 2019: €76.9 million). Following the payment of €54.3 million, the remaining potential cash exposure is €21.6 million.

## 5. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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### 5.1 FAIR VALUE

All financial instruments held by the Group at 30 June 2020 are classified as level 1, with the exception of other investments which are classified as level 3. A description of the fair value hierarchy can be found on page 112 of our 2019 Annual Report. Financial assets held at 30 June 2020 amounting to €32,422 thousand (31 December 2019: €72,511 thousand) were classified as fair value through other comprehensive income.

Assets and liabilities are reviewed at the end of each reporting period to determine whether any transfers between the levels of fair value hierarchy are deemed to have occurred. Given the nature of the assets and liabilities currently held, transfers between levels of fair value hierarchy are not expected. There were no other transfers between level 1 and level 2 fair value measurements and no transfers into or out of level 3 fair value measurements during the period.

### 5.2 CREDIT RISK

The scope of the credit risk of ZEAL equals the sum of cash, financial assets, trade receivables, other receivables and short-term loans. There are no specific default risks in the cash and other financial assets portfolio as of the statement of financial position date. Details of the credit risk for each asset can be found in note 31 of the Notes to the 2019 Consolidated Financial Statements.

### 5.3 LIQUIDITY RISK

Due to the sufficiency of its liquid assets, ZEAL is not exposed to any significant liquidity risk. ZEAL has sufficient liquidity to service its liabilities at any time. Financial liabilities are mainly due immediately and do not accrue interest. Financial liabilities and trade payables presented on the face of the statement of financial position are payable within one year.

### 5.4 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. Sensitivity analyses performed yielded no material movement in interest income based on an increase or decrease of 10 basis points.

### 5.5 CURRENCY RISK

The Group is exposed to a currency risk as a result of the GBP exchange rates compared to the euro. The risk arises from payments received and made in foreign currency, which differ from each company's functional currency and are not always offset by payments in the same currency of the same amount and with the same maturities. Sensitivity analyses performed yielded no material movement in foreign exchange gains or losses based on an increase or decrease of 10% GBP to Euro exchange rates.

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

## 6. CAPITAL MANAGEMENT

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ZEAL operates a decentralised capital management system. Information about our capital management system is detailed in note 30 of the Notes to the 2019 Consolidated Financial Statements.

## 7. RELATED PARTIES

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The Members of the Management Board and Supervisory Board of ZEAL, as well as their immediate relatives, are regarded as related parties in accordance with IAS 24 'Related Party Disclosures'. There were no significant transactions with related parties in the period under review. Further information about our related parties are detailed in note 29 of the Notes to the 2019 Consolidated Financial Statements.

## 8. SUBSEQUENT EVENTS

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In July, ZEAL received a confirmation from HMRC (the UK tax authority) that it is willing to repay Stamp Duty Reserve tax of £3.3 million (equivalent to €3.7 million) which was paid by ZEAL in March 2014 in relation to the relocation of ZEAL's registered office to the UK from Germany. The repayment (including interest, net of fees) will be recorded as non-recurring income in the Q3 Quarterly Statement, meaning that expected adjusted EBITDA for the full year of between €7 million and €10 million will not be affected.

There were no other events of particular significance after the end of the reporting period that will have a material impact on the Group's business performance.

### RESPONSIBILITY STATEMENT


'To the best of our knowledge, and in accordance with the applicable reporting principles for Interim Financial Reporting, the Interim Consolidated Financial Statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Interim Group Management Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group in the remaining fiscal year.'

Hamburg, 12 August 2020

The Management Board



Dr. Helmut Becker  
Chief Executive Officer



Jonas Mattsson  
Chief Financial Officer

## FINANCIAL CALENDAR

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12 November 2020      Publication of Quarterly Statement Q3

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