CREATING A BETTER WORLD OF LOTTERY

INTERIM FINANCIAL REPORT
1 JANUARY – 30 SEPTEMBER 2018

ZEAL

WHO WE ARE

ZEAL is the world's leading online lottery innovator. Our aim is to create a better world of lottery; positively changing a sector that's been stuck in a time-warp for too long and helping change lives while doing it. Founded in 1999, we are a house of lottery brands operating across: lottery betting (Tipp24 and myLotto24), primary and social lottery operation (Lottovate), and lottery venture capital (ZEAL Ventures). We have more than 3.5million 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 €3billion, and paid out more than €1.5billion in prizes.

ZEAL GROUP[1]

We are a house of lottery brands operating in the lottery betting, primary & social lottery, and lottery venture capital spaces.

CONTENTS

[1] *'ZEAL Group' or 'the Group'*

Q1–3 2018 AT A GLANCE

€212.4m
BILLINGS (Q1–3 2017: €201.7M)

€184.8m
STAKES (Q1–3 2017: €175.8M)

€111.2m
REVENUE (Q1–3 2017: €93.8M)

€114.1m
TOTAL OPERATING PERFORMANCE (Q1–3 2017: €97.6M)

€29.1m
EBIT (Q1–3 2017: €12.5M)

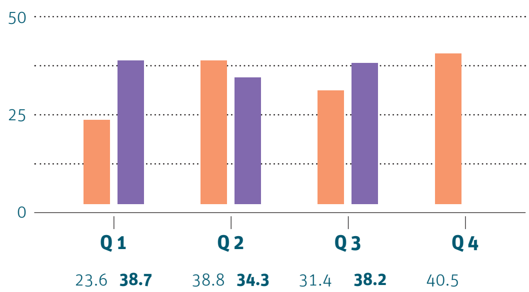
€101.0m
NET CASH (Q1–3 2017: €48.2M)

€2.39
EPS (Q1–3 2017: €1.04[1])

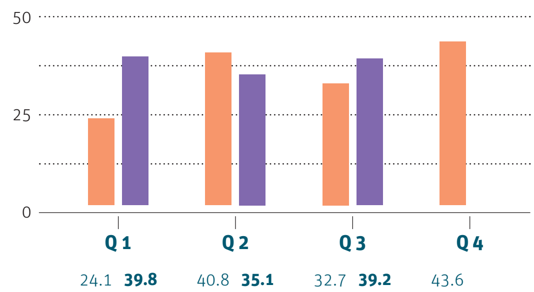
€56.58
Ø BILLINGS PER USER (Q1–3 2017: €57.00)

395k
MONTHLY ACTIVE USERS (Q1–3 2017: 372K)

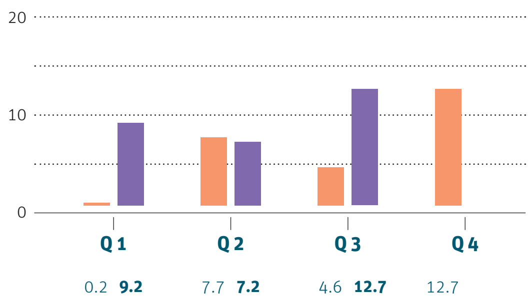
STATUTORY REVENUE[2] in €m



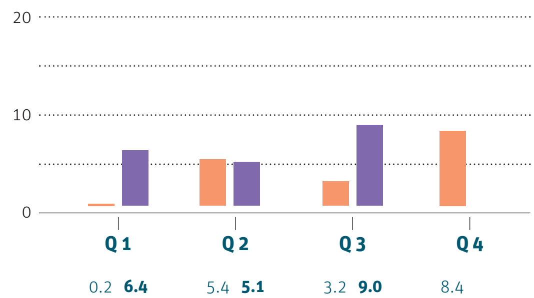
STATUTORY TOTAL OPERATING PERFORMANCE in €m



STATUTORY EBIT in €m



NET PROFIT in €m



2017 2018

[1] In line with the requirements of IFRS, the 2017 EPS has been restated from €1.05 to €1.04 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 5.

[2] Revenue in Q1 2017 was negatively impacted by high prize pay-outs.

The definitions concerning the financial measurements disclosed above can be found on page 21-22 of the 2017 Annual Report. There has been no change in definitions since the issue of the 2017 Annual Report on 22 March 2018.

BUSINESS REVIEW

We have made excellent progress and delivered a strong performance for the first nine months of 2018. Billings, Total Operating Performance Performance (TOP[1]) and EBIT all showed significant increases compared to 2017.

Our third quarter performance was particularly promising. This was driven by our focus on higher margin products, higher average jackpots, strong performance from Instant Win Games and US lotteries, and fewer exceptional prize payouts compared to the previous year. For the quarter, billings were up 8% and revenue up 22% versus Q3 2017. EBIT for the quarter outperformed expectations at €12.7m.

For the nine months to 30 September 2018, we delivered:

- Billings of €212.4m (2017: €201.7m); up 5%
- TOP of €114.1m (2017: €97.6m); up 17%
- EBIT of €29.1m (2017: €12.5m); up 133%

On a normalised basis – which highlights the Group's underlying performance – revenues were up 8% and EBIT up 26% year-on-year.

Continuing our momentum in new customer acquisition, we delivered a record number of new registered customers for the Group and our partners, with the 418,000 acquired representing an uplift of 54% year-on-year (2017: 272,000).

In our lottery betting segment, we acquired 24% more new registered customers in the first nine months of 2018 than for the whole of 2017. We achieved this while simultaneously reducing acquisition costs by more than half compared to the previous year. This is the direct result of the optimisations and investments we have continued to make.

Average Billings Per User in the lottery betting segment were broadly maintained at €56.58 (2017: €57.00).

We are also seeing positive momentum in the new UK and Norwegian businesses we are building, and started to scale-test in the UK during the period.

The diversity of our portfolio and our dynamic approach puts us in an excellent position to capitalise on the online growth potential in the lottery industry.

OUTLOOK

As previously announced in February 2018 and subsequently reiterated, we expect to generate TOP in the range of €150m to €160m and EBIT of between €33m and €43m.

DIVIDEND

We intend to pay a total dividend of at least €1.00 per share in 2018. This position is subject to periodic review and may be amended depending on our future earnings and financial position.

ONGOING LEGAL AND REGULATORY MATTERS

The principal legal and regulatory matters affecting the Group are included in the 2017 Annual Report. There have been no material changes in the period, other than those disclosed in note 10, to the status of these matters since the date of approval of the 2017 Annual Report.

TAX MATTERS AND CONTINGENT LIABILITIES

Other than those disclosed in note 7, there have been no material changes in the status of the tax matters reported in the 2017 Annual Report. The Directors continue to closely monitor any changes in areas where a contingent liability has been previously disclosed or could arise.

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

FINANCIAL REVIEW

The following table details the interim consolidated results of the ZEAL Group for the nine months ended 30 September:

	Q1–3 2018	Q1–3 2017
in €k		
Revenue	**111,202**	**93,803**
Other operating income	2,927	3,828
Total Operating Performance (TOP)	**114,129**	**97,631**
Personnel expenses	(22,374)	(21,797)
Other operating expenses	(62,382)	(62,358)
Marketing expenses	*(13,896)*	*(14,622)*
Direct costs of operations	*(32,122)*	*(30,921)*
Other costs of operations	*(16,364)*	*(16,815)*
EBIT	**29,097**	**12,452**
Key Performance Indicators		
Billings	212,354	201,747
Stakes	184,757	175,754
Normalised revenue	114,961	106,699
Normalised EBIT	33,016	26,177
Earnings per share (€)[1]	2.39	1.04
Net cash position[2]	101,015	48,178
Cash inflow from operating activities[3]	25,040	3,508
Cash used in investing and financing activities	(2,759)	(1,728)

[1] In line with the requirements of IFRS, the 2017 EPS has been restated from €1.05 to €1.04 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 5.
[2] Due to the implementation of a new ILS structure, the hedging reserve decreased from €50,000k as at 30 September 2017 to USD$30,000k (€25,800k) as at 31 December 2017. It was further reduced to €17,501k following the €8,299k class 1 winner in May 2018.
[3] The 2017 comparative has been restated. Additional information can be found on page 15.

REVENUE AND TOTAL OPERATING PERFORMANCE

Revenue for the nine-month period ended 30 September 2018 increased by €17,399k to €111,202k (2017: €93,803k). TOP for the nine-month period ended 30 September 2018 increased by €16,498k to €114,129k (2017: €97,631k).

The increase in both revenue and TOP is largely due to a 5.1% increase in stakes compared to the prior period and a reduction in the value of exceptional prize pay-outs, which in the nine months to 30 September 2018 was €8,299k (2017: €15,000k).

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

PERSONNEL EXPENSES

Personnel expenses for the nine-month period ended 30 September 2018 increased by €577k to €22,374k (2017: €21,797k). The movement is due to the increase in the bonus accrual as a result of the Group's improved performance in 2018.

OTHER OPERATING EXPENSES

Other operating expenses for the nine-month period ended 30 September 2018 increased by €24k to €62,382k (2017: €62,358k). The most significant contributory factors were:

- Decrease in marketing expenses of €726k. The decrease in marketing is due to the marketing campaign for DANKE-MILLION in 2017 (2017 spend: €2,705k) which was not repeated in 2018. This was offset by a €1,367k increase in marketing spend in the UK and Ireland, as part of the internationalisation program and €579k spend on the launch of our primary lotteries in the Lottovate business unit.
- Increase in direct costs of operations of €1,201k, which is mainly due to a €1,595k increase in hedging costs (driven by the increased customer numbers and higher EuroJackpot and US jackpots compared to the prior period). We continue to benefit from the flexibility of the new ILS structure which delivered a €10m reduction in self-retention, improving capital efficiency and reducing cash flow volatility. Details of the new ILS can be found on page 14 of the 2017 Annual Report.
- Decrease in other costs of operations of €451k, which is mainly driven by a €579k decrease in consulting costs. The remaining movement is due to various immaterial decreases in other line items.

BILLINGS AND STAKES

Billings for the nine-month period ended 30 September 2018 increased by €10,607k to €212,354k (2017: €201,747k). Stakes increased by €9,003k to €184,757k (2017: €175,754k). The growth in billings and stakes is primarily associated with instant win games and betting on our major US lottery products – Powerball and Mega Millions.

NORMALISATION OF RESULTS

The underlying statistical average pay-out ratios for ongoing lottery draws is approximately 50% in respect of our main products (the expected pay-out ratio for lottery betting is the same as for the primary lotteries). However, we experience differences between the expected pay-out ratio and actual pay-outs made, and the difference is referred to as 'normalisation'. In order to aid understanding of our financial results, we disclose the effect of these differences between the expected and actual pay-out ratio by presenting 'normalised' revenue and EBIT.

Total pay-outs for secondary lottery betting for the nine-months ended 30 September 2018 were €3,759k above the expected pay-out value (2017: €12,896k above). This, combined with the reduction of €160k from the normalisation of hedging income, resulted in an adverse difference between actual and expected statutory EBIT of €3,919k (2017: €13,725k below).

In the prior period, the deviation between actual and expected revenue and EBIT was primarily due to an exceptional prize pay-out in March 2017 of €15,000k.

Revenue

	Q1–3 2018	Q1–3 2017	**Q3 2018**	Q3 2017
in €k				
Actual	111,202	93,803	38,229	31,452
Expected[1]	114,961	106,699	37,136	35,198
Normalisation effect[2]	**(3,759)**	**(12,896)**	**1,093**	**(3,746)**

EBIT

	Q1–3 2018	Q1–3 2017	**Q3 2018**	Q3 2017
in €k				
Actual	29,097	12,452	12,721	4,553
Expected[1]	33,016	26,177	11,714	8,519
Normalisation effect[2]	**(3,919)**	**(13,725)**	**1,007**	**(3,966)**

[1] *Actuals adjusted for expected pay-outs*
[2] *Difference between actual and expected amounts*

EARNINGS PER SHARE (EPS)

The EPS from continuing operations in the nine months to 30 September 2018 increased by €1.35 to €2.39 (2017: €1.04) due to an increase in profit after tax of €11,339k compared to the prior period. In line with the requirements of IFRS, the 2017 EPS has been restated from €1.05 to €1.04 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 5.

DIVIDEND

ZEAL confirms its intention of paying a total dividend of at least €1.00 per share in the current year. This position is subject to periodic review and may be amended depending on our future earnings and financial position.

NET CASH POSITION

Net Cash as at 30 September 2018 increased by €52,837k to €101,015k (2017: €48,178k). The increase in net cash is due to a €25,547k decrease in the hedging reserve due to the implementation of the new ILS structure and €20,102k profit after tax for the nine months ended 30 September 2018 and a €5,870k decrease in the amount of income tax paid. The remaining movements are due to changes in working capital.

CASH FLOW

	Q1–3 2018	Q1–3 2017
in €k		Restated
Cash from operating activities	25,040	3,508
Cash used in investing activities	(856)	(1,728)
Cash used in financing activities	(1,903)	–
Changes in cash and pledged cash and short-term financial assets	**22,281**	**1,780**
Cash and pledged cash and short-term financial assets at the beginning of the period	112,375	108,119
Cash and pledged cash and short-term financial assets at the end of the period[1]	**134,656**	**109,899**

[1] In line with IFRS, for the purposes of the cash flow, short-term financial assets excludes €6,660k (2017: €6,731k) invested in equity funds.

Cash inflow from operating activities for the nine-month period ended 30 September 2018 increased by €21,532k to €25,040k (2017 Restated: €3,508k). The difference relates to the increase in profit before tax of €16,329k and a €5,870k decrease in the amount of income tax paid. The remaining movements are due to changes in working capital.

Investing outflow for the nine-month period ended 30 September 2018 decreased by €872k to €856k (2017: €1,728k). The outflow is attributable to the acquisition of an investment, intangible assets and property, plant and equipment assets.

Financing outflow for the nine-month period ended 30 September 2018 increased by €1,903k to €1,903k (2017: nil). The outflow is attributable to the acquisition in July of treasury shares.

As of 30 September 2018, cash and pledged cash and short-term financial assets increased by €24,757k to €134,656k (2017 Restated: €109,889k). This includes the 2018 remaining retention of €21,701k (2017: €35,000k) which is held to ensure myLotto24 Limited is sufficiently financed to pay jackpot winnings as they fall due.

EQUITY

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. As a result the acquired treasury shares are treated as a deduction from equity and have reduced distributable reserves.

OTHER INFORMATION

Information about our risk management approach and our business risks and opportunities are detailed on pages 24–28 of our 2017 Annual Report. There have been no changes to the Group's risks other than those disclosed in note 10.

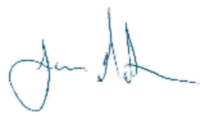
GOING CONCERN

The Directors formed a judgement at the time of approving the interim financial statements that there is a reasonable expectation that ZEAL has adequate resources to continue for the foreseeable future. The Group held €141,316k in cash, pledged cash and short-term financial assets at the period end (31 December 2017: €119,175k). The Group expects to deliver revenue and profit growth in the periods ahead. For these reasons, the Directors have adopted the going concern basis in preparing the interim consolidated financial statements.

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 of the Group. The interim management report of the Group includes a fair review of the development and performance of the business and the position of the Group, as well as a fair review of information on material transactions with related parties and changes since the last Annual Report.

1 November 2018



Dr. Helmut Becker
CEO

Jonas Mattsson
CFO

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

INTERIM CONSOLIDATED INCOME STATEMENT (UNAUDITED) FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2018

	Q1–3 2018	Q1–3 2017	**Q3 2018**	Q3 2017
in €k				
Revenue	111,202	93,803	38,229	31,452
Other operating income	2,927	3,828	954	1,203
Total Operating Performance (TOP)	**114,129**	**97,631**	**39,183**	**32,655**
Personnel expenses	(22,374)	(21,797)	(7,128)	(5,770)
Other operating expenses	(62,382)	(62,358)	(19,100)	(22,018)
Marketing expenses	*(13,896)*	*(14,622)*	*(4,143)*	*(5,760)*
Direct costs of operations	*(32,122)*	*(30,921)*	*(9,791)*	*(11,041)*
Other costs of operations	*(16,364)*	*(16,815)*	*(5,166)*	*(5,217)*
Exchange rate differences	604	(66)	50	(11)
Depreciation and amortisation of non-current assets	(880)	(958)	(284)	(303)
Result from operating activities (EBIT)	**29,097**	**12,452**	**12,721**	**4,553**
Finance income	218	308	58	13
Finance costs	(146)	(241)	(30)	(47)
Gain/(loss) on short-term financial assets	(321)	–	56	–
Results from financing and investing activities	**(249)**	**67**	**84**	**(34)**
Profit before income tax	**28,848**	**12,519**	**12,805**	**4,519**
Income tax expense	(8,746)	(3,756)	(3,819)	(1,356)
Profit attributable to the equity shareholders of the Company	**20,102**	**8,763**	**8,986**	**3,163**
Earnings per share for profit attributable to ordinary equity holders of the Company	€	€	€	€
Basic and diluted earnings per share[1]	2.39	1.04	1.07	0.38

[1] *In line with the requirements of IFRS, the 2017 EPS has been restated from €1.05 to €1.04 for the nine months to 30 September 2017, as a result of the purchase of treasury shares by the Group in July 2018. The EPS for the three months to 30 September 2017 was recalculated and remained at €0.38. Further details of the purchase can be found in note 5.*

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED) FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2018

	Q1–3 2018	Q1–3 2017	**Q3 2018**	Q3 2017
in €k				
Profit for the period	**20,102**	**8,763**	**8,986**	**3,163**
Other comprehensive income				
Other comprehensive income to be reclassified to profit or loss in subsequent periods:				
Exchange gain on translation of foreign operations	36	27	18	8
Gain on short-term financial assets	–	144	–	153
Other comprehensive income net of tax	**36**	**171**	**18**	**161**
Total comprehensive income attributable to the equity shareholders of the Company	**20,138**	**8,934**	**9,004**	**3,324**

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED) AS AT 30 SEPTEMBER 2018 AND 31 DECEMBER 2017

	30 September 2018	31 December 2017
ASSETS in €k		
Non-current assets		
Property plant and equipment	2,632	2,607
Intangible assets	346	510
Deferred tax assets	38	38
Other investments	3,156	3,041
Other assets and prepaid expenses	471	438
Total non-current assets	**6,643**	**6,634**
Current assets		
Trade and other receivables	2,112	1,803
Income tax receivables	–	474
Other current assets and prepaid expenses	10,505	13,025
Financial assets	20,760	27,123
Cash and pledged cash	120,556	92,052
Total current assets	**153,933**	**134,477**
TOTAL ASSETS	**160,576**	**141,111**
EQUITY & LIABILITIES in €k		
Non-current liabilities		
Other liabilities	2,298	1,765
Total non-current liabilities	**2,298**	**1,765**
Current liabilities		
Trade payables	2,427	5,510
Other liabilities	23,485	23,098
Financial liabilities	97	106
Deferred income	2,472	2,105
Income tax liabilities	4,382	1,074
Provisions	564	837
Total current liabilities	**33,427**	**32,730**
Equity		
Subscribed capital	8,385	8,385
Share premium	21,578	21,578
Treasury shares	(1,903)	–
Other reserves	–	(560)
Foreign currency translation reserve	219	183
Retained earnings	96,572	77,030
Total equity	**124,851**	**106,616**
TOTAL EQUITY & LIABILITIES	**160,576**	**141,111**

INTERIM CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED) FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2018

	Q1–3 2018	Q1–3 2017
in €k		Restated
Profit from continuing operations before tax	28,848	12,519
Adjustments for		
Depreciation and amortisation of non-current assets	880	958
Net loss on sale of non-current assets	–	1
Finance income	(218)	(308)
Finance costs	146	241
Other non-cash changes	176	22
Changes in		
Trade and other receivables	(309)	(905)
Other assets and prepaid expenses	2,487	5,434
Trade payables	(3,083)	(1,096)
Other liabilities	920	(2,867)
Financial liabilities	(9)	(26)
Deferred income	367	334
Short-term provisions	(273)	(32)
Interest received	218	308
Interest paid	(146)	(241)
Income taxes paid	(4,964)	(10,834)
Cash flow from operating activities	**25,040**	**3,508**
Cash flow from investing activities		
Payments for acquisition of intangible assets	(44)	(80)
Payments for acquisition of property, plant and equipment	(697)	(1,305)
Payment for acquisition of investment	(115)	(1,843)
Loan receipt from other companies	–	1,500
Net cash outflow from investing activities	**(856)**	**(1,728)**
Cash flow from financing activities		
Payments to acquire treasury shares	(1,903)	–
Net cash outflow from financing activities	**(1,903)**	**–**
Net increase in cash, pledged cash and short-term financial assets	22,281	1,780
Cash, pledged cash and short-term financial assets at the beginning of the year	112,375	108,119
Cash, pledged cash and short-term financial assets at the end of the financial period	**134,656**	**109,899**
Composition of cash, pledged cash and short-term financial assets at the end of the financial period		
Cash and pledged cash	120,556	84,819
Short-term financial assets	14,100	25,080

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED) FOR THE YEAR ENDED 31 DECEMBER 2017 AND FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2018 AND 30 SEPTEMBER 2017

in €k	Subscribed capital	Share premium	Treasury shares	Other reserves	Retained earnings	Currency translation adjustments	**Total equity**
As at 1 January 2017	**8,385**	**21,578**	**–**	**(785)**	**68,237**	**143**	**97,558**
Profit for the period	–	–	–	–	8,763	–	8,763
Other comprehensive income	–	–	–	144	–	27	171
Total comprehensive income for the period	**–**	**–**	**–**	**144**	**8,763**	**27**	**8,934**
As at 30 September 2017	**8,385**	**21,578**	**–**	**(641)**	**77,000**	**170**	**106,492**
Profit for the period	–	–	–	–	8,415	–	8,415
Other comprehensive income	–	–	–	81	–	13	94
Total comprehensive income for the period	**–**	**–**	**–**	**81**	**8,415**	**13**	**8,509**
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	–	–	–	560	(560)	–	–
Profit for the period	–	–	–	–	20,102	–	20,102
Other comprehensive income	–	–	–	–	–	36	36
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**20,102**	**36**	**20,138**
Treasury shares acquired	–	–	(1,903)	–	–	–	(1,903)
As at 30 September 2018	**8,385**	**21,578**	**(1,903)**	**–**	**96,572**	**219**	**124,851**

SELECTED EXPLANATORY NOTES

1 GENERAL INFORMATION, BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES AND EVENTS DURING THE PERIOD

GENERAL INFORMATION

The unaudited interim condensed consolidated financial statements (the 'interim financial statements') for ZEAL Network SE (the 'Company') and its subsidiaries (collectively, 'ZEAL' or 'the Group') for the nine-month period ended 30 September 2018 were authorised for issue by the Directors on 1 November 2018.

The Company was founded in Germany in 1999 and 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 date of the interim consolidated statement of financial position is 30 September 2018. The financial period ended 30 September 2018 covers the period from 1 January 2018 to 30 September 2018.

The interim financial statements are unaudited. The operations of the Group are not subject to significant seasonality or cyclical trends.

BASIS OF PREPARATION

The interim financial statements for the nine-month period ended 30 September 2018 have been prepared in accordance with IAS 34 'Interim Financial Reporting', as adopted by the European Union. Accordingly, these interim financial statements do not include all of the information and disclosures required to fully comply with IFRS as adopted by the European Union. For this reason, the interim financial statements should be read in conjunction with the Group's consolidated financial statements for the year ended 31 December 2017.

The interim financial statements include all adjustments of a normal and recurring nature considered necessary for fair presentation of results for interim periods. Results of the period ended 30 September 2018 are not necessarily indicative of future results.

The Directors are satisfied that the Group has sufficient resources to continue in operation for the foreseeable future, a period no less than 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing the interim financial statements.

PRINCIPAL ACCOUNTING POLICIES

Except as described below, the accounting policies applied in these interim financial statements are the same as those applied in the Group's consolidated financial statements for the year ended 31 December 2017. Management's assessment of new accounting standards that are not yet effective, including IFRS 16, can be found on pages 79 and 80 of our 2017 Annual Report.

IFRS 15 Revenue from Contracts with Customers

The Group has initially adopted IFRS 15 Revenue from Contracts with Customers from 1 January 2018.

Prior to the adoption of IFRS 15 the Group performed a full impact assessment and it was concluded that there is no change in the quantum or timing of revenue recognised under IFRS 15 as opposed to IAS 8. The Group has continued to monitor the impact of the adoption of IFRS 15 and there have been no impacts on the financial results for the nine-month period ended 30 September 2018. As a result, no changes have been made to the Group accounting policy for revenue recognition.

The results of the assessment for each revenue stream are detailed on page 78 of our 2017 Annual Report.

IFRS 9 Financial Instruments

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. Other investments

The Group previously held one of its investments at historical cost and the other at fair value through profit and loss. Under IFRS 9, all the Group's investments are required to be measured at fair value in accordance with IFRS 13. The fair value of each investment is calculated using a discounted cash flow method and consideration of the fair value of rights arising from the terms of the purchase agreements to determine the amount that could be obtained on disposal of the asset.

The Group has calculated the fair value of the investment at the date of transition and the date of these financial statements and determined that no transition adjustments are required.

2. Short-term financial assets

On adoption of IFRS 9, the Group has classified 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 short-term 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.

At 30 September 2018, the Group held €20,760k (31 December 2017: €27,123k) of short-term financial assets, these were split between €6,660k (31 December 2017: €6,800k) invested in equity funds and €14,100k (31 December 2017: €20,323k) invested in fixed income funds. In the nine-month period ended 30 September 2018, the Group disposed of €6,042k of short-term financial assets resulting in a loss of €27k (Q 1–3 2017: Loss: €25k), which was recognised in income statement. The fair value movement in the nine-month period to 30 September 2018 was a loss of €294k (Q1–3 2017: Gain: €169k).

3. Expected credit losses

IFRS 9 requires the Group to record expected credit losses on all 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 the expected life time losses on all its financial assets.

The Group has performed an assessment at the date of transition and the date of these financial statements and has not adjusted the loss allowance for any financial assets held at amortised cost.

ESTIMATES

In preparing these interim financial statements, the significant judgements made by management in applying the Group's accounting policies and key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2017, with the exception of judgments relating to the accounting estimates that occurred on the adoption of IFRS 9.

PRIOR PERIOD RESTATEMENT

In preparing these interim financial statements, it was determined that the short-term financial asset balance contains both investment in 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 period ended 30 September 2017 being restated. The Group held €6,731k and €6,546k of equity funds at 30 September 2017 and 31 December 2016, respectively.

The opening cash and cash equivalents balance in the 2017 cash flow statement has been reduced from €114,665k to €108,119k to reflect the removal of the 31 December 2016 equity funds. The short-term financial assets balance, in the cash flow, has been reduced from €31,811k to €25,080k to reflect the removal of the 31 September 2017 equity investments. Other non-cash charges have been restated from €207k to €22k to remove the fair value movement in equity funds in the period.

There is no impact on the classification of short-term financial assets in the consolidated statement of financial position or the consolidated income statement, as a result of this restatement.

2 SEGMENT REPORTING

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.

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.

There has been no change in the activities of the individual segments since the issue of the 2017 Annual Report on 22 March 2018. In line with the requirements of IFRS 15, revenue which is accounted for under this standard has been separately disclosed as revenue from ticket sales and commission.

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

- 'Normalisation' adjustments – these adjustments bridge the quantum of statistically expected pay-outs included within the business unit column to consolidated statutory results which include actual cash outflows.
- Other items impacting revenue and other operating income mainly relate to external revenue and other operating income generated by Schumann e.K. (which does not form part of either the Lottery Betting or Lottovate segments).

Business unit segment reporting

Q 1–3 2018	Lottery Betting	Lottovate	**Business unit total**	Normalisation adjustments	Other adjustments	**Statutory**
in €k						
Revenue	95,252	–	**95,252**	(3,759)	–	**91,493**
Revenue from ticket sales and commission	13,625	5,940	**19,565**	–	144	**19,709**
Other operating income	2,467	445	**2,912**	(160)	175	**2,927**
Total operating performance (TOP)	111,344	6,385	**117,729**	(3,919)	319	**114,129**
EBITDA	39,705	(5,363)	**34,342**	(3,919)	(446)	**29,977**
Depreciation/amortisation	(663)	(217)	**(880)**	–	–	**(880)**
EBIT	39,042	(5,580)	**33,462**	(3,919)	(446)	**29,097**
Financing and investing result	–	–	**–**	–	(249)	**(249)**
EBT	–	–	**33,462**	(3,919)	(695)	**28,848**
Income tax	–	–	**–**	–	(8,746)	**(8,746)**
Net profit/(loss)	–	–	**33,462**	(3,919)	(9,441)	**20,102**

Business unit segment reporting

Q 1–3 2017	Lottery Betting	Lottovate	**Business unit total**	Normalisation adjustments	Other adjustments	**Statutory**
in €k						
Revenue	101,157	5,378	**106,535**	(12,896)	164	**93,803**
Other operating income	4,416	229	**4,645**	(829)	12	**3,828**
Total operating performance (TOP)	105,573	5,607	**111,180**	(13,725)	176	**97,631**
EBITDA	34,066	(6,845)	**27,221**	(13,725)	(86)	**13,410**
Depreciation/amortisation	(731)	(227)	**(958)**	–	–	**(958)**
EBIT	33,335	(7,072)	**26,263**	(13,725)	(86)	**12,452**
Financing and investing result	–	–	**–**	–	67	**67**
EBT	–	–	**26,263**	(13,725)	(19)	**12,519**
Income tax	–	–	**–**	–	(3,756)	**(3,756)**
Net profit/(loss)	–	–	**26,263**	(13,725)	(3,775)	**8,763**

3 OTHER INVESTMENTS

The Group holds investments in Omaze Inc., Pick My Postcode (formerly the Free Postcode Lottery) and Cloud Canyon Limited.

On 26 July 2018, ZEAL invested €115k (£100k) for a 5% interest in Cloud Canyon Limited ('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.

On 1 May 2017, ZEAL secured a cash investment of €1,843k (USD $2,000k) in Los Angeles based start-up Omaze Inc. 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. The fair value calculation for Omaze is sensitive to changes in the key assumptions, most notably billings growth, cost growth and margin. Reasonable changes to the assumptions are considered to be; a 1% increase in costs, a 1% reduction in margin and a 1% decrease in billings growth. Reasonable changes to the assumptions used, considered in isolation, would not result in a material change to the fair value of the investment.

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

Other investments are held at fair value with gains and losses being recognised in comprehensive income.

	2018
in €k	
Balance as at 1 January 2018	3,041
Additions	115
Balance as at 30 September 2018	**3,156**

4 TAXES

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

	Q1–3 2018	Q1–3 2017	**Q3 2018**	Q3 2017
in €k				
Current income tax (expense)	(8,746)	(3,756)	(3,819)	(1,356)
Deferred tax (expense)	–	–	–	–
Total income tax	**(8,746)**	**(3,756)**	**(3,819)**	**(1,356)**

5 EQUITY

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. As required by IFRS the acquired treasury shares are treated as a deduction from equity. As a result of the treasury shares being purchased at above market value, the EPS for comparative periods has been restated.

6 DIVIDENDS

ZEAL confirms its communicated intention of paying a total dividend of at least €1.00 per share in the current year. This position is subject to periodic review and may be amended depending on our future earnings and financial position.

7 FINANCIAL ASSETS AND FINANCIAL LIABILITIES

7.1 FAIR VALUE

All financial instruments held by the Group at 30 September 2018 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 113 of our 2017 Annual Report. Short-term financial assets held at 30 September 2018 amounting to €20,760k (31 December 2017: €27,123k) were classified at FVPL.

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. On adoption of IFRS 9, the Pick My Postcode investment has been classified as a level 3. On acquisition, the investment in Wshful has been classified as a level 3. There were no other transfers between level 1 and level 2 fair value measurements and no other transfers into or out of level 3 fair value measurements during the period.

7.2 CREDIT RISK

The scope of the credit risk of ZEAL equals the sum of cash, short-term 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 balance sheet date. Details of the credit risk for each asset can be found on page 113 of our 2017 Annual Report.

No contingent assets were recognised at 30 September 2018 (31 December 2017: no contingent assets recognised). As disclosed on page 110 of the 2017 Annual Report, there is significant uncertainty as to whether VAT is due in respect of certain services provided by the myLotto24 subgroup. The potential financial impact at 30 September 2018 is €57.8m (31 December 2017 €41.3m).

7.3 LIQUIDITY RISK

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

In order to limit the particular risk of high jackpot pay-outs in the 'Lottery Betting' segment, MyLotto24 Limited conducts hedging transactions – such as the transfer of payment obligation risks to reinsurance via an ILS vehicle.

Financial liabilities and trade payables presented on the face of the balance sheet are payable within one year.

7.4 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.

7.5 CURRENCY RISK

The Company is exposed to a currency risk as a result of the GBP and USD 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. Sensitivity analyses performed yielded no material movement in foreign exchange gains or losses based on an increase or decrease of 10% GBP and USD to Euro exchange rates.

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

8 CAPITAL MANAGEMENT

ZEAL operates a decentralised capital management system. Information about our capital management system are detailed on page 112 of our 2017 Annual Report.

9 RELATED PARTIES

The Members of Executive Board and Supervisory Board of ZEAL Network, as well as their immediate relatives, are regarded as related parties in accordance with IAS 24 'Related Party Disclosures'. Other than Directors remunerations, there were no significant transactions with related parties in the period under review. Further information about our related parties are detailed on page 111 of our 2017 Annual Report.

10 SUBSEQUENT EVENTS

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 has instructed Ventura24 to cease operating its B2C business and Ventura24 is now in the process of doing this under a structured process. The closure of the B2C business will not have a material impact on the Group's ongoing profitability. Our current hedging strategy and service contract with ONCE are not impacted. The DGOJ has the right to start sanction proceedings against Ventura24 and potentially fine the Company. However, at the date of signing the interim financial report the Directors expect that any potential fines will not be material.

There were no other significant events after the balance sheet date that require separate disclosure.

11 STATUTORY ACCOUNTS

The financial information shown in this publication, which was approved by the Executive Board of Directors on 1 November 2018, is unaudited and does not constitute statutory financial statements. The Annual Report of ZEAL Network SE for the year ended 31 December 2017 has been filed with the Registrar of Companies in England and Wales. The report of the auditor on those accounts was unqualified and did not contain a statement under section 498(2) or section 498(3) of the UK Companies Act 2006.

FINANCIAL CALENDAR

22 March 2019	Publication of Annual Report 2018
7 May 2019	Publication of Q1 Report
27 June 2019	Annual General Meeting
1 August 2019	Publication of Q2 Report
5 November 2019	Publication of Q3 Report

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