CREATING A BETTER WORLD OF LOTTERY

ANNUAL REPORT 2017

ZEAL

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2017 AT A GLANCE

€280m
BILLINGS (2016: €280M)

€241m
STAKES (2016: €244M)

€134m
REVENUE (2016: €113M)

€141m
TOTAL OPERATING PERFORMANCE (2016: €140M)

€25m
EBIT (2016: €38M)

€70m
NET CASH (2016: €44M)

€2.05
EARNINGS PER SHARE (2016: €3.09)

€57.58
Ø BILLINGS PER USER (2016: €58.03)

380k
MONTHLY ACTIVE USERS (2016: 376K)

€150m+
CUMULATIVE DIVIDENDS SINCE 2007[1]

3.5m+
TOTAL NUMBER OF CUSTOMERS ACROSS THE GROUP

OTHER HIGHLIGHTS

- 31% increase in new registered customers for the Group and our partners
- 27% cost reduction over last 3 years in our Technology Operations
- Powerball, most successful new product launch to date
- Launched Norway's first digital-only national lottery, in partnership with UNICEF Norway
- myLotto24 launched in Ireland and in the UK
- Became the Netherlands' first new charity lottery licence holder in nearly 30 years
- Acquired a 2.5% stake in Omaze

[1] *We monitor cumulative dividends to provide an indication of the shareholder value generated since 2007.*

The definitions concerning the financial measurements disclosed above can be found in the Key Performance Indicators section on page 21-22 of the Annual Report

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.

LOTTERY BETTING[2]

Our associated company, myLotto24 Limited (myLotto24), invented the concept of jackpot-matching lottery betting. It operates as a bookmaker, offering bets on the outcomes of lotteries throughout the world. It holds the sector's record for the single largest pay-out of €48m. A ZEAL-affiliated, company, myLotto24 is going through an exciting period of international expansion – through its Tipp24 and myLotto24 brands – with new markets and new products including Powerball and instant win games.

LOTTOVATE[3]

Lottovate is reinventing the digital lottery experience, operating primary lotteries and helping charities, foundations and communities unlock new sources of funding through bespoke lottery platforms. In 2017, Lottovate launched Norway's first digital-only national lottery in partnership with UNICEF. In addition, in 2017 it effectively became the Netherlands' first new charity lottery licence holder in nearly 30 years. Its Lotto Network brand has helped professional sports clubs raise more than €1million for their community foundations, while its work with ONCE in Spain has helped them significantly increase online billings year-on-year, helping them continue their amazing work supporting disabled and visually-impaired people in Spain.

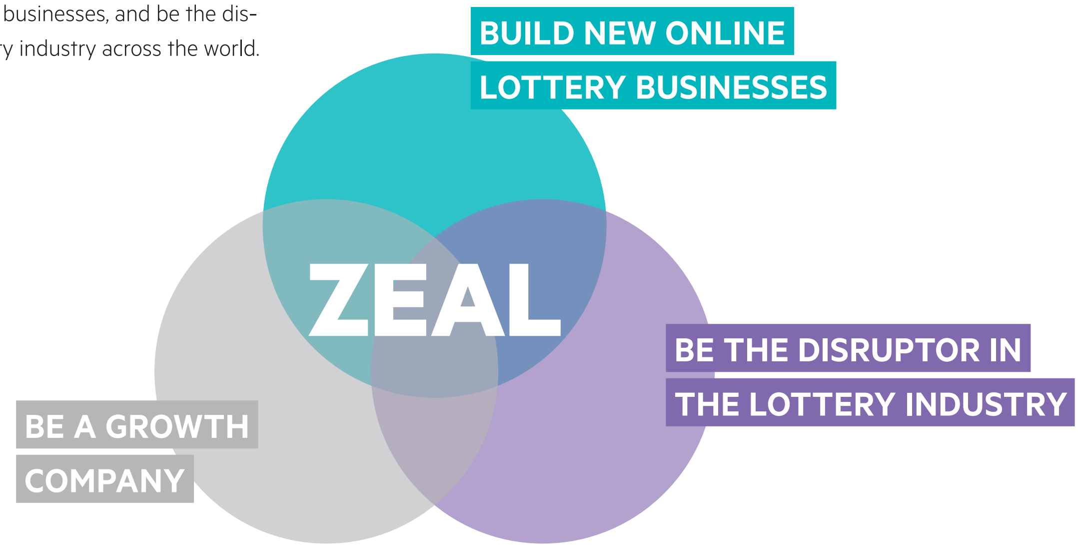
ZEAL VENTURES

ZEAL Ventures was established to unearth the businesses and innovations which will define the future of lottery. To do so, it capitalises on the existing venture capital gap we identified in the lottery industry. ZEAL Ventures focuses on external investments and internal incubation, and supports start-ups that are developing disruptive new lottery business models or products. It provides them with growth capital and intellectual capital from the wider ZEAL Group. In return, ZEAL Ventures expects to learn from to acquire and/or partner with these companies, and generate a financial return. ZEAL Ventures has acquired a 10% shareholding in The Free Postcode Lottery, a 2.5% stake in Omaze, and has interests in other exciting businesses through its internal incubation programme.

[1] 'ZEAL Group' or 'the Group'
[2] Formerly known as Business-to-Consumer
[3] Formerly known as Business-to-Business/ Business-to-Government

STRATEGIC GOALS

Our strategic goals are to: be a growth company, stand on more than one leg by building new online lottery businesses, and be the disruptor in the lottery industry across the world.



OUR VALUES

THINK BRAVE

We imagine the impossible and try new things. We are proud to create and deliver innovative solutions for ourselves and for our customers. We challenge the norm. We are positive and passionate. We embrace the new. We surprise ourselves and the people around us.

BETTER TOGETHER

Success is a team effort. We support each other to reach our common goals. We make great business partners. Our relationships are based on trust and respect. We celebrate successes and learn from our mistakes together. Our Group is what we make it.

EXCEED EXPECTATIONS

We strive to meet and exceed the expectations of our customers, of those around us and ourselves. We push ourselves to achieve outstanding results with a positive, proactive attitude and focus on delivery. We are committed to continuous improvement.

THINK LIKE AN OWNER

We are responsible and accountable. We balance risk, reward and resources. We see the bigger picture and know our market. We understand our customers and their needs. With an entrepreneurial spirit, a can-do attitude – we strive to deliver. We prioritise, we focus, we make it happen.

EXECUTIVE REVIEW

Jonas Mattsson, CFO, Susan Standiford, COO, Helmut Becker, CEO

DEAR SHAREHOLDERS

2017 was an exciting and satisfactory year for the ZEAL Group as we once again delivered strong results, which exceeded guidance, while continuing on our journey to create a better world of lottery. We kept building for our future: entering new markets, adding and creating new products, and investing in disruptive businesses.

STRONG RESULTS

In 2017, we delivered:

- Billings of **€280.5m** – maintaining performance in challenging market conditions (2016: €280.4m)
- Stakes of **€241.3m** – down 1% on prior year (2016: €243.8m)
- Revenue of **€134.3m** – up 19% on prior year (2016: €112.9m)
- Total Operating Profit (TOP[1]) of **€141.2m** – up 1% on prior year (2016: €139.6m)
- EBIT of **€25.2m** – exceeding our guidance[2] (2016: €38.0m)
- Net cash of **€69.5m** – strong cash generation, up 59% on prior year (2016: €43.7m)
- Average Billings Per User of **€57.58** – maintaining performance with prior year (2016: €58.03)
- Average Monthly Active Users of **379.8k** – up 1% on prior year (2016: 375.7k)
- Paid out a dividend, as previously declared, of **€1.00** per share (2016: €2.80 per share)

We delivered these results in spite of the exceptionally weak jackpot environment in our core products during the third quarter of the year; unavoidably higher hedging costs as a result of changes to EuroMillions; significant pay-outs including a single €15.0m prize in the first quarter of the year; and a regulatory environment that continues to be challenging as monopoly operators seek to protect their positions.

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

[2] The Group's revised guidance has been disclosed in the Financial Review section of the Strategic Report.

Our fourth quarter performance was particularly strong, with billings of €78.8m; up an impressive 21% compared to the third quarter. This was driven by a combination of our most successful new product launch to date with the introduction of Powerball, and record billings in the Spanish Christmas Lottery, El Gordo.

Our base of Average Monthly Active Users increased to 379.8k, up 1% compared to 2016, while average Billings Per User were flat; a satisfactory performance given the weak jackpot environment in the third quarter.

On a normalised basis[3], which is a primary key performance indicator used by the Group to assess performance, EBIT was €38.1m (2016: €50.8m), and revenue was €147.0m (2016: €145.5m).

Our billings for the year were maintained at €280.5 million. In light of the particularly weak jackpot environment in the third quarter, this is a positive performance. We achieved this as a result of our diversified portfolio, and our focus on customer acquisition and customer experience. It is a sign of the underlying strength of our business.

SOWING THE SEEDS FOR OUR FUTURE

We have made good progress in building for our future. We launched in three new markets, acquired a licence in the Netherlands, improved our product portfolio and acquired a significant number of new customers.

New markets and products

Our approach to new markets is to be a smart entrant – testing, learning and adapting, rather than 'spray and pray' – to help us drive the best return on investment and inform our entry into other markets. Aligned to this, the Group continues to invest in improving its product portfolio and in attracting new customers; delivering 411,000 new customers in 2017 for the Group and our partners; an increase of 31% compared to 2016. This is great validation of both the existing and new products and services the Group continues to deliver.

In the second quarter, delivering on its internationalisation strategy, Ireland became myLotto24's first new lottery betting market. It has shown positive improvements month-on-month. Using the learnings gained from Ireland, in December 2017, myLotto24 launched its consumer-facing proposition in the UK with a Spanish Christmas Lottery (El Gordo) campaign.

myLotto24 aims to offer the best selection of lottery betting products from across the world. During 2017, it launched Cash4Life and betting on major US lotteries, Powerball and Mega Millions. Added in the last quarter of the year, Powerball was our most successful new lottery betting product launch to date. The Spanish Christmas lottery, El Gordo, also delivered a record performance.

These 4 products, two of which were only introduced in the last quarter of 2017, had a positive impact on billings for the year. Instant Win Games continue to go from strength to strength with billings in 2017 showing an increase of more than 4% year-on-year. These performances offset the reduction in billings experienced in the third quarter as a result of the exceptionally weak jackpot environment.

[3] Normalised revenue and EBIT are non-statutory measures. These items have been defined in the normalisation of results section of the report.

»The lottery industry has not had its Airbnb or Netflix moment, yet. We want to change that.«

Helmut Becker, CEO

Lottovate is opening up new markets for national lotteries, primarily focusing in 2017 on charity and social lotteries. In November, having been awarded a licence in the second quarter of the year, our Lottovate brand in partnership with UNICEF launched Norway's first digital-only national charity lottery. The UNICEF-lotteriet is our Group's first primary lottery operation and an important milestone as we expand and diversify.

Additionally, having been awarded a licence to operate a digital-only national charity lottery in the Netherlands, Lottovate plans to launch its market-changing primary lottery product, Raffld, during the second quarter of 2018.

By the end of 2018, we expect to have launched in at least 6 new markets in just 2 years.

Best-in-class technology

Our approach is underpinned by a best-in-class tech platform. Over the last 2 years, we have invested significantly in replacing our legacy single-market and hardware focused technology with a much more flexible and powerful platform. This has given us the capability to launch fast into multiple markets with a varied product mix and to increase capacity as we grow. We believe our new platform gives us significant competitive advantage.

Disruptive investments

In addition, ZEAL Ventures invested €1.8m to acquire a 2.5% stake in fast-growing, Los Angeles based start-up, Omaze which is transforming charity giving for millennials by offering the opportunity to win celebrity experiences. The Free Postcode Lottery continues to pursue organic growth opportunities.

FOCUSING ON OPERATIONAL EFFICIENCY

The Group has pursued both growth and diversification, which has involved investment – in people, technology and marketing. At the same time, we have focused on being as operationally efficient as possible.

In late 2016, changes made to EuroMillions resulted in unavoidably higher hedging costs for the Group in 2017 as we continued to offer our customers access to the biggest jackpots within the constraints of the existing three-year hedging structure. To address this, in January 2018, we implemented a new Insurance-Linked-Security (ILS) structure – the third since we pioneered its use in 2011. This has reduced the Group's risk exposure by €20.0m over two years (€10.0m per year) through a lower self-retention (from €35.0m to €25.0m) and freed up €10.0m of cash – improving the capital efficiency of our hedging operations by 30%. At the same time, it provides the Group with much more flexibility – increasing our cover thresholds and improving our competitiveness by enabling us to add new partners and products at any time.

Through further investments in our technology capabilities we have been able to reduce our technology operations costs by 27% over 3 years. At the same time, we have increased our ability to move quickly and flexibly into new markets with new products, while crucially further improving our customers' experience.

We continue to make our marketing even more efficient. Through focusing on greater optimisation of our marketing processes, channels, offers and creative executions, we have been able to reduce the cost per acquisition in our lottery betting segment by an impressive 21%.

»In 2017, we exceeded our guidance; delivering strong results in challenging conditions. That shows the underlying strength of the business.«

Jonas Mattsson, CFO

»Best in class technology, three new markets, significant increase in new customers, and enhanced operational efficiency. That's great strategic progress, and there's more to come.«

Susan Standiford, COO

WE ARE RESPONSIBLE

The online lottery industry, particularly lottery betting, and the gambling sector more broadly, gets a bad rap. We are different. We aim to be a positive addition to all the markets in which we operate. We have made societal and customer responsibility core to our business model – whether that's giving back directly to causes such as SportsAid or the Community Foundation of Ireland; supporting organisations which promote responsible gambling; or through our partnerships with charities such as UNICEF Norway, ONCE, or the Arsenal Foundation.

A WORLD OF OPPORTUNITY

We believe the global lottery market is full of untapped potential. As a sustainable, diverse and long-term focused business, the Group is well positioned to take advantage of this opportunity.

Like the travel, transport, and media industries, technology has the potential to transform the world's lottery sector, providing customers with greater choice and, at the same time, engaging new audiences and generating even more money for good causes.

To take advantage of this we urge countries across the world to follow the examples set by the UK, Norway, and the Netherlands in opening up their markets and allowing other operators in alongside the existing national and state lotteries. Doing so, we believe, will improve innovation and customer choice.

We continue to work hard to engage and collaborate with regulators around the world to help them see the potential that a better world of lottery can create, and the positive addition to their markets which the ZEAL Group can offer.

OUTLOOK FOR 2018

For 2018, we expect EBIT in the range of €33m–€43m, and a Total Operating Performance of €150m–€160m. We expect to pay a dividend of at least €1.00 per share in 2018, subject to financial performance.

The Executive Board

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

EXPANDING INTO NEW MARKETS!

In 2017, we launched into our first three new international markets: Ireland, UK and Norway. By the end of 2018, we expect to have launched in at least 6 new markets in just 2 years.

IRELAND

Delivering on its internationalisation strategy, Ireland became myLotto24's first new international market in the second quarter of 2017. With an estimated market size of €700m, it offers the Group the opportunity to test and learn, and has shown positive improvements month-on-month.

»At a time where charities all over the world are having to diversify their income streams, Lottovate are standing right behind them; helping people give for good through innovative new funding mechanisms.«

Susan Standiford, COO

UK

myLotto24 also launched its consumer-facing proposition in the UK during December 2017. Its highly visual campaign was timed to coincide with El Gordo – the world's biggest annual lottery. Wearing an enhanced prosthetic suit, created by award-winning film prosthetics and prop makers, a super-sized Spanish matador visited several iconic London landmarks, engaging the public and media as myLotto24's UK launch was announced.

NORWAY

In the fourth quarter of 2017, Lottovate launched Norway's first digital-only national lottery in partnership with UNICEF. It is the Group's first primary lottery and operates through a charity lottery licence. This was the first of its kind, awarded by the Norwegian Lottery Authority (Lotteritilsynet) for a nine-year term.

NETHERLANDS

In 2017, Lottovate effectively became the Netherlands' first new charity lottery licence-holder in nearly 30 years. In the second quarter of 2018, Raffld will launch; a ground-breaking experience lottery product, raising money for a portfolio of charities, and targeting the millennial generation who, so far, have not tended to engage with traditional lotteries.

AMAZING NEW PRODUCTS

As well as diversifying internationally, we have also focused on diversifying our product portfolio. myLotto24 aims to offer the best selection of lottery betting products from across the world. During 2017, it launched Cash4Life and betting on major US lotteries, Powerball and Mega Millions, as well as its proprietary DANKE-Million product. Lottovate introduced the Group's first primary national lottery product, in Norway, and has been developing a ground-breaking new primary lottery product for the Dutch market.

WE DELIVERED OUR MOST SUCCESSFUL NEW PRODUCT LAUNCH EVER IN 2017

UNICEF-lotteriet

CASH4LIFE

Cash4Life, introduced to our lottery betting portfolio in April 2017, is a new lottery product originating from the USA and causing a sensation worldwide. Rather than a single lump-sum, players have the opportunity to win €1,000 per day, for life.

POWERBALL

Powerball is a US lottery with the biggest jackpots in the world. The minimum jackpot size is $40.0m, and the largest jackpot to date has been almost $1.6billion. Added in the last quarter of the year, Powerball was our most successful new lottery betting product launch to date.

MEGA MILLIONS

Mega Millions, which was added to the lottery betting portfolio in November 2017, is the second biggest lottery in the US, with twice weekly draws. The minimum jackpot size is $40.0m, with the highest winning jackpot to date of $656.0m.

DANKE-MILLION

Developed after research with more than 13,000 customers, DANKE-MILLION is exclusive to myLotto24. Introduced in July 2017, DANKE-MILLION gives customers the opportunity to say 'thank you' to someone of their choice by gifting them €1.0m if they win a jackpot. Billed as the biggest thank you of all time, DANKE-MILLION is paid in addition to the jackpot amount. In March 2018, the product was expanded to include the UK.

UNICEF-LOTTERIET

The UNICEF-lotteriet is Norway's first digital-only national lottery. Operating through a charity lottery licence, it raises money exclusively for UNICEF. The product is targeted at a mobile and tablet focused customer. 30% of every ticket sold goes directly to UNICEF Norway; 40% goes to prize funding; and 30% for the lottery's operation. More than 10,000 people viewed the first draw which we streamed on Facebook Live in November 2017.

RAFFLD

Raffld, launching in the second quarter of 2018, is a ground-breaking new primary lottery product for the Dutch market. It is aimed at the millennial generation who have so far tended not to engage with traditional lotteries. Instead of the traditional monetary prizes, Raffld gives players the opportunity to win unique experiences. It also encourages a more social playing and winning experience. Raffld, which operates under a charity lottery licence, will raise money for a portfolio of good causes.

DISRUPTIVE INVESTMENTS

ZEAL Ventures was established to unearth the businesses and innovations which will define the future of lottery. It supports start-ups that are developing disruptive new lottery business models or products; providing them with growth capital and intellectual capital from the wider ZEAL Group. In return, we expect to learn from acquire and/or partner with these companies, and generate a financial return.

WE ARE UNEARTHING THE LOTTERY BUSINESSES AND INNOVATIONS OF THE FUTURE

OMAZE

In June 2017, we acquired a 2.5% stake in Omaze – a fast-growing, Los Angeles based start-up, which is transforming charity giving for millennials by offering the opportunity to win 'money can't buy' celebrity experiences when they donate. For instance: being mentored by Arnold Schwarzenegger; playing mini golf with U2; or winning a walk-on role in a Star Wars movie. The business is performing well.

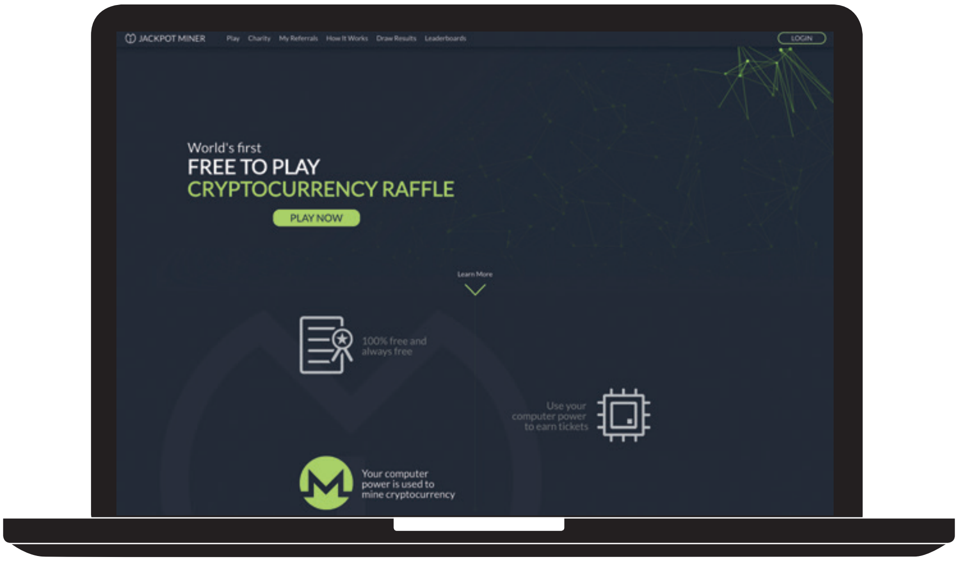
Omaze

THE FREE POSTCODE LOTTERY

Founded in 2011, the Free Postcode Lottery (FPL) has grown to become the UK's largest free-to-play lottery. In December 2016, we acquired a 10% stake in the business. Over the course of the year, FPL has been pursuing organic growth opportunities.

INTERNAL INCUBATION

Our internal incubation programme was established to harness ideas generated by the incredibly talented people working within the Group. It enables us to test concepts and/or new business ideas with limited seed funding. The ideas are rigorously evaluated using the same criteria we apply to external investments. We have so far invested in two businesses, including the world's first free-to-play crypto-currency raffle.



OPERATIONAL EFFICIENCY

Being as operationally efficient as possible is core to delivering our strategy and growth. As we invest to grow, we also seek to make every cent we spend work as hard as possible, and to take action in areas where we can clearly be even more efficient.

REDUCING RISK, IMPROVING CAPITAL EFFICIENCY AND INCREASING COMPETITIVE ADVANTAGE

HEDGING

In late 2016, changes were made to EuroMillions, which had the effect of increasing our hedging costs in 2017. This was partly because of the constraints of the three-year fixed hedging structure, and partly because of our commitment to keep offering our customers access to the biggest jackpots.

To address this, building on our already pioneering approach to hedging the Group's exposure to the world's largest jackpots, we devised a new ILS structure called Hoplon III. Effective from 1 January 2018 for a period of 2 years, this new approach should substantially reduce the Group's hedging costs and financial risk and improves capital efficiency.

In fact, Hoplon III has reduced our risk exposure by €20.0m over two years (€10.0m per year) through a lower self-retention (from €35.0m to €25.0m), and freed up €10.0m of cash – improving the capital efficiency of our hedging operations by 30%.

At the same time, it gives the Group much more flexibility – increasing our cover thresholds and improving our competitiveness by enabling us to add new partners and products at any time.

This is an excellent example of how the Group is at the forefront of innovation.

HEDGING AS A SERVICE

The flexibility offered by Hoplon III has enabled us to develop a Hedging as a Service business line; giving other bookmaking organisations the ability to provide their own customers access to the lottery betting products we offer, through our hedging structure. The revenue model works on the basis that an organisation pays us to transfer their risk on a large number of bets. We are currently testing the market for product fit and business potential.

ENHANCING AND LEVERAGING OUR TECHNOLOGY

We have continued to invest in developing our best-in-class technology platforms. By further enhancing our capabilities, by leveraging greater automation of infrastructure and in micro services for example, we have also been able to reduce our technology operations costs by 27% over the past 3 years. At the same time, we have increased our ability to move quickly and flexibly into new markets with new products, while also further improving our customers' experiences.

GREATER MARKETING EFFICIENCY

We have focused on improving the efficiency of our marketing. In our lottery betting business unit, for example, we have focused heavily on greater optimisation of our marketing processes, channels, offers and creative execution. This has enabled us to substantially reduce our cost per acquisition by an impressive 21% and at the same time, significantly increase the number of new registered customers.

-21%
LOTTERY BETTING COSTS PER ACQUISITION IN 2017

-27%
TECHNOLOGY OPERATIONS COSTS OVER 3 YEARS

BUSINESS REVIEW AND STRATEGY

BUSINESS MODEL AND STRUCTURE

The Group's operating segment names have changed to 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. There has been no change in the results of the individual segments or comparative figures. We have described the composition of the segments in more detail below:

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

We monitor the performance of the Lottery Betting segment based on 'normalised' revenue and EBIT (statutory revenue and EBIT adjusted for statistically expected prize pay-outs). The disclosures included in the operating segment note 3 (page 90) are consistent with our internal reporting. 'Normalised' performance is given due prominence in the disclosure as this is the way we analyse our business internally. Included within our note on operating segments is a reconciliation between the segmental results used to assess the lines of business and our consolidated statutory performance where statistically expected pay-outs are replaced with actual cash outflows. Inter-segment transactions are also eliminated as part of this process.

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

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

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

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

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

OUR STRATEGY

ZEAL is focused on two main strategic objectives:

- The first strategic objective is to continue to grow and develop the Lottery Betting businesses of secondary lottery and Instant Win Games, by acquiring new customers and increasing the product portfolio. Internationalisation of the successful existing product offering is viewed as the key for future growth. The business activities are independently directed and managed by the Directors of the myLotto24 sub group (being myLotto24 Limited and its subsidiary companies).
- The second strategic objective is enhancement of our Lottovate business operating under the brands Lottovate, Ventura24 and Lotto Network. Following successful partnerships with private and state run organisations in recent years, we aim to expand into other European markets by using our leading edge technological and marketing expertise. We want to create a new lottery economy that helps organisations develop a social product that truly resonates with people and communities. We want to bring people together.

Strategy is determined independently in the respective business units.

STRATEGY IMPLEMENTATION

- The Lottery Betting segment TOP grew by 3% in 2017. Instant Win Games continued to grow while revenues from draw-based lotteries remained stable. In October 2017, the Group's continued focus on product diversification saw it deliver its most successful new product launch to date as it introduced world record-breaking US lottery, Powerball, to its portfolio. The Group also introduced new lotteries: Cash4Life and US Mega Millions. The Spanish Christmas Lottery, El Gordo, delivered a record billings performance. In March 2017, we went live in Ireland, which is seen as the first step in the wider internationalisation strategy, representing an excellent test and learn opportunity.
- Lottovate made significant progress. In 2017, we fully launched Norway's first ever online charity lottery in partnership with UNICEF Norway. This brand new primary lottery product, will help support UNICEF's incredible work by raising additional funds. We are on track to fully launch our Netherlands product during the first half of 2018. During the year, we continued to invest in the Lottovate platform. The charity lottery partnership with ONCE generated significant growth and achieved positive EBIT for the Group in 2017.

LEGAL AND REGULATORY MATTERS

THE REGULATORY ENVIRONMENT

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

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

VARYING LEGAL MARKET SITUATIONS

The development of the legal environment for gambling and betting activities in jurisdictions in which we operate or plan to enter varies greatly:

- In Germany, gambling is governed by the German State Treaty on Games of Chance (Staatsvertrag zum Glücksspielwesen), brought into law in 2008 and revised in 2012. The legislation was found to be in breach of European Union (EU) law and, as such, the legal situation for any potential enforcement of German legislation in Europe remains unclear. Specifically, the European Court of Justice (ECJ) found that the application of the legislation was in contravention of the EU law on the freedom to provide services. While the judgement against the legislation applied to sports betting, it is likely to extend to all games of chance, including lottery. Following a number of rulings by the German courts which found in favour of private gambling operators, the regulator has recently proposed minor changes to the sports betting legislation, which does not solve the non-compliance of the interstate treaty with EU law. The Group continues to monitor the regulatory developments.
- The Group is subject to legal cases concerning its ability to provide secondary lottery products in Germany. The Group has taken legal advice as to the manner in which it should respond and the likelihood of success of such actions. Where the Board is able to quantify reliably any material outflow of funds, this has been recorded as a provision in note 20 to the Consolidated Financial Statements. The recording of legal provisions and disclosures can be complex by their nature and often cannot be finally determined until a formal court ruling has been made. The Board continues to assess the evolving regulatory environment and the legal cases and challenges in Germany, which provides uncertainty over the long term ability of the Group to provide secondary lottery products in Germany.
- The UK Government has revised the National Gambling Act to improve consumer protection by requiring offshore companies who seek to market gaming products in the UK, to be licensed by the UK Gambling Commission.

- The legal situation in Spain remains unclear. Unequivocal regulations concerning the online brokerage of lotteries especially product marketing, according to our legal advice are not imminent at present. If the Spanish Gambling Commission is successful in its challenges, the impact of closure of the company would, in itself, not have a significant financial impact on the Group's results, however, it could have an impact on the current hedging strategy.
- At the time of this report, there have been no other regulatory or legislative developments in markets in which we have entered or plan to enter in the future.

MARKET MATTERS

JACKPOTS

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

CATCH-UP POTENTIAL FOR INTERACTIVE LOTTERIES

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

NORMALISATION OF RESULTS

NORMALISED RESULTS

In the lotteries on whose results ZEAL Group relies, there are underlying statistical average pay-out ratios for ongoing lottery draws. For our main products, this is approximately 50%. The expected pay-out ratio for lottery betting is the same as for the primary lotteries. There may be deviations between the expected pay-out ratio and actual pay-outs made. The difference between the actual pay-out and the expected prize pay-out is referred to as 'normalisation' in this report.

In order to aid understanding of the financial statements and the related earnings position, we disclose the effect of deviations between the expected and actual pay-out ratio by presenting 'normalised' revenue and EBIT.

LARGE JACKPOT PAY-OUTS

Total pay-outs for secondary lotteries in 2017 were €12,725k above the expected pay-out value (2016: €32,580k). This combined with the €190k negative impact from the normalisation of hedging income, resulted in a difference between actual and expected statutory EBIT of €12,915k (2016: €12,864k).

The deviation between actual and expected revenue and EBIT is primarily due to an exceptional prize pay-out in March 2017 of €15,000k (2016: €37,000k). In 2016, the Group recognised other operating income attributable to a receipt from a special jackpot insurance policy of €20,000k (which related to the exceptional prize pay-out of €37,000k).

Revenue

	2017	2016
in €k		
Actual	134,295	112,935
Expected[1]	147,020	145,515
Deviations[2]	(12,725)	(32,580)

EBIT

	2017	2016
in €k		
Actual	25,181	37,956
Expected[1]	38,096	50,820
Deviations[2]	(12,915)	(12,864)

[1] *Actual results adjusted for the normalisation effect.*
[2] *The difference between actual and expected amounts.*

FINANCIAL REVIEW

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

	2017	2016
in €k		
Revenue	134,295	112,935
Other operating income	6,951	26,703
Total Operating Performance (TOP)	**141,246**	**139,638**
Personnel expenses	(28,630)	(26,705)
Other operating expenses	(85,758)	(70,405)
Marketing expenses	(19,131)	(14,830)
Direct cost of operations	(43,365)	(33,909)
Other costs of operations	(23,262)	(21,666)
Exchange rate differences	(422)	(1,304)
EBITDA	**26,436**	**41,224**
Amortisation and depreciation	(1,255)	(2,166)
Gain/(Loss) on liquidation of subsidiary	–	238
Loss on acquisition	–	(1,340)
EBIT	**25,181**	**37,956**
Financial and investing result	50	(1,445)
Profit before taxes	**25,231**	**36,511**
Income taxes	(8,053)	(10,560)
Profit for the year	**17,178**	**25,951**

REVENUE AND TOTAL OPERATING PERFORMANCE

TOP for the financial year 2017 amounted to €141,246k, (2016: €139,638k) representing an increase of €1,608k compared to 2016.

Consolidated revenue for the financial year 2017 amounted to €134,295k (2016: €112,935k) representing an increase of €21,360k compared to 2016. The increase in revenue is largely due to a reduction in the value of exceptional prize pay-outs, which totalled €15,000k in 2017 (2016: €37,000k).

The decrease in other operating income is attributable to a receipt from a special jackpot insurance policy in the prior year of €20,000k (2017: €nil) (which related to the exceptional prize pay-out of €37,000k) and the decrease in the value of dormant balances released in 2017 to €669k (2016: €3,397k). These decreases have been offset by a €3,152k increase in income recognised from tickets hedged through the Group's wholly owned subsidiary Ventura24 S.L.U (Ventura24).

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

TOP was above the revised guidance of €130,000k to €140,000k which was announced on 9 March 2017.

EXPENSES

For 2017, personnel expenses were €28,630k (2016: €26,705k), representing an increase of €1,925k compared to 2016. The average number of full time equivalent employees (FTEs) increased to 274 in 2017 (2016 FTEs: 250).

Other operating expenses increased from €70,405k to €85,758k. The most significant contributory factors were:

- Increase in marketing expenses of €4,301k. The increased investment in marketing is consistent with our strategy to drive customer acquisition and re-activate the dormant proportion of the Lottery Betting customer base.
- Increase in direct costs of operations of €9,456k, which is due to a €10,589k increase in physical hedged ticket costs due to a higher number of fully hedged draws compared to the prior period. This has been partially offset by a reduction in jackpot insurance costs of €1,214k.

Other expenses include adverse foreign exchange movements with a loss of €422k in 2017 (2016: loss of €1,304k). This loss was driven by the weakening of the British Pound against the Euro during 2017.

LOSS ON ACQUISITION

In the first quarter of 2016, ZEAL acquired the remaining shares in Geonomics Global Games Limited (GGGL) and Geo24 UK Limited (Geo24), to obtain 100% ownership. The objective of the acquisition was to secure the software development team and the expertise of the employees from both entities. A loss on acquisition of €1,340k was recorded in 2016. Since the acquisition, the new team has been key in developing products, platforms and technologies that will allow the operating business to react quickly and efficiently to consumers and changes in the competitive landscape.

FINANCING AND INVESTING RESULT

The financing and investing result amounted to a gain of €50k (2016: loss of €1,445k), representing an improvement of €1,495k compared to 2016. In 2016, a loan advanced to GGGL under a convertible facility was impaired and a charge of €1,598k was recorded in the income statement.

The remaining amounts recorded within this line relate to other interest income of €385k (2016: €390k) offset by interest expense of €335k (2016: €237k).

EBIT

Statutory EBIT in 2017 was €25,181k (2016: €37,956k) representing a decrease of €12,775k compared to the prior year.

EBIT exceeded the revised guidance of €15,000k to €25,000k which was announced on 9 March 2017.

TAX

At 31.9%, the consolidated tax rate for the year was higher than in the prior year (2016: 29.0%). The expected tax charge based on the blended rate of UK corporation tax of 19.25% (2016: 20.0%) is €4,857k (2016: €7,302k) compared to the actual tax charge recorded of €8,053k (2016: €10,560k). The most significant drivers of the tax charge higher than the effective rate are described below:

- a tax expense of €3,818k (2016: tax expense of €3,853k) on tax losses carried forward for which no deferred tax asset is recognised partially offset by tax losses utilised during the year,
- a tax expense of €333k (2016: tax expense of €299k) on non-deductible expenses and adjustments in respect of foreign tax rates,
- a tax credit of €753k (2016: tax credit of €104k) in respect of an overprovision relating to the prior years,
- A tax credit of €202k (2016: €nil) relating to foreign exchange,
- in 2016, a tax credit of €757k (2017: €nil) in respect of settlement of uncertain tax positions and tax loss utilisation,
- in 2016, a tax credit of €33k (2017: €nil) related to exempt income.

KEY PERFORMANCE INDICATORS

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

Performance indicator	Definition	Relevance	Performance
Billings	Billings comprises all stakes from customers (including brokerage stakes and associated VAT) net of free bets.	This provides a measure of the Group's ability to increase the economic value of stakes from customers (including brokerage stakes) over a period of time.	2017: €280,509k 2016: €280,435k
Stakes	Stakes comprises all bet from customers net of free bets.	This provides a measure of the Group's ability to increase the economic value of stakes from customers over a period of time.	2017: €241,306k 2016: €243,765k
Normalised Revenue	Revenue which has been adjusted for the underlying statistical average pay-out ratio.	This provides a measure of underlying performance of the Group by removing deviations between the expected pay-out ratio and actual pay-outs made.	2017: €147,020k 2016: €145,515k
Total Operating Performance (TOP)	TOP is the sum of revenue and other operating income as disclosed in the Consolidated Income Statement.	This provides a measure of the statutory revenue and other operating income (including hedging income) of the Group.	2017: €141,246k 2016: €139,638k
Statutory EBIT/ normalised EBIT	Statutory EBIT is the unadjusted Earnings Before Interest and Tax. Normalised EBIT is the Earnings Before Interest and Tax, which has been adjusted for the underlying statistical average pay-out ratio.	This provides a measure of the Group's ability to increase the economic value of our operating activity over a period of time.	Statutory EBIT 2017: €25,181k 2016: €37,956k Normalised EBIT 2017: €38,096k 2016: €50,820k
Earnings Per Share (EPS)	EPS is profit attributable to the equity shareholders of the Group divided by share capital.	This provides a measure of the Group's ability to increase the inherent value of our business for our shareholders over a period of time.	2017: €2.05 2016: €3.09
Net cash position	Net cash position is: Cash (without pledged cash) + Short-term financial assets + Other current assets and prepaid expenses - Trade payables - Other liabilities - Income tax liabilities - €30,000k hedging reserve[1]	This provides a measure of the Group's ability to reinvest profits or to pay dividends to shareholders.	2017: €69,512k 2016: €43,683k
Operating cash flow	Operating cash flow is the cash flow generated by a Group in the course of normal business operations.	This provides a measure of the Group's liquidity in the short term.	2017: €13,406k 2016: €33,741k

[1] Due to the implementation of a new ILS structure, the hedging reserve has decreased from €50,000k as at 31 December 2016 to €30,000k as at 31 December 2017.

Performance indicator	Definition	Relevance	Performance
Average Billings per User per month (ABPU)	ABPU is the average net billings received from each active customer. It is calculated by dividing monthly net billings by Monthly Active Users.	This provides a measure of the Group's ability to increase loyalty and value from our customers.	2017: €57.58 2016: €58.03
Average Monthly Active Users (MAU)	Average MAU is the average number of unique users who have either purchased a bet or participated in a draw in a given month.	This provides a measure of the Group's ability to retain and attract new customers.	2017: 379.8k 2016: 375.7k

DIVIDEND POLICY

The Executive Board has proposed, and the Supervisory Board has approved, a dividend policy under which the Company intends to pay annual dividends, which are expected to amount to at least €1.00 per share in 2018, subject to financial performance. An announcement of the amount of the dividend, and the record date for entitlement to the dividend, will be made in advance of payment.

The Company declared a dividend of €1.00 (2016: 2.80 per share) on 6 December 2017 and paid it on 29 December 2017.

CASH FLOWS AND CAPITAL MANAGEMENT

PRINCIPLES AND OBJECTIVES OF CAPITAL MANAGEMENT

ZEAL operates a decentralised capital management system. While the Executive Board of ZEAL Network takes all major decisions concerning the financial structure of the Lottovate segment, capital management activities of the Lottery Betting segment are handled by myLotto24 Limited – with the exception of Tipp24 Services Limited (Tipp24), which operates its own capital management system.

The principles and objectives of ZEAL's capital management are as follows (the risks to which ZEAL is exposed are described in the current risk report on pages 24 to 28):

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

Capital management policies of myLotto24 Limited and its subsidiaries and Tipp24 Services Limited are disclosed in their stand-alone financial statements, which are available from each company's registered office. Further information can be found in note 28 to the Consolidated Financial Statements.

ZEAL's equity increased in total by €9.1m to €106.6m in 2017. During the period, ZEAL distributed a dividend of €1.00 per share totalling €8.4m (2016: €23.5m). Over the same period, the equity ratio increased by 4 percentage points to 76%.

ZEAL did not hold any interest-bearing debt during 2017 or at 31 December 2017.

LIQUIDITY ANALYSIS

	2017	2016
in €k		
Key cash flow positions		
Cash from operating activities	13,406	33,741
Cash used in investing activities	(511)	(3,258)
Cash used in financing activities	(8,385)	(23,478)
Changes in cash and pledged cash and short-term deposits	**4,510**	**7,005**
Cash and pledged cash and short-term deposits at the beginning of the year	114,665	107,660
Cash and pledged cash and short-term deposits at the end of the year	**119,175**	**114,665**

Cash from operating activities in 2017 was €13,406k (2016: 33,741k), a decrease of €20,335k compared to the prior year. The difference primarily relates to the receipt in March 2016 of Spanish withholding tax of €9,575k (included within the income generated from the hedging of a €47,800k jackpot in May 2015) and the reduction in profit before tax of €11,280k.

Cash used in investing activities in 2017 was €511k (2016: €3,258k), representing a decrease of €2,747k compared to the prior year. In 2017, the net cash outflow on intangible assets and property, plant and equipment was €1,668k (2016: €700k). In 2017, the investment in Omaze resulted in a cash outflow of €1,843k, whilst the Group received a loan repayment of €3,000k.

Cash used in financing activities wholly relates to dividend payments of €8,385k (2016: €23,478k).

As of 31 December 2017, ZEAL Group had cash and pledged cash and short-term deposits of €119,175k (2016: €114,665k). This includes funds that ensure that myLotto24 is sufficiently financed to make payments of potential relevant jackpot winnings.

FINANCIAL POSITION

ASSETS NOT RECOGNISED

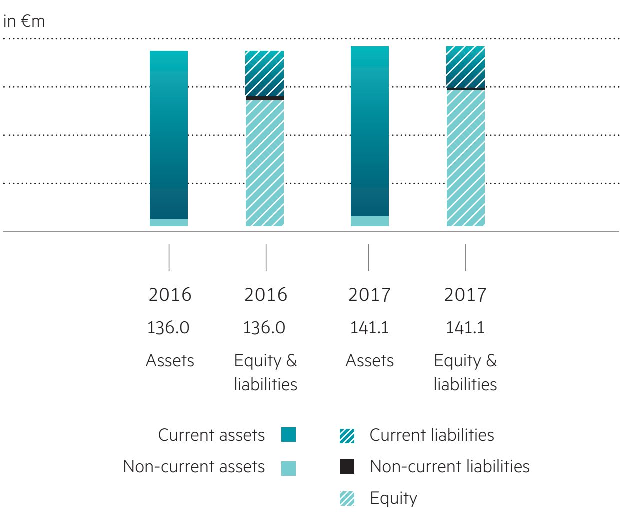
Other than the Alinghi and KOSMO platforms, ZEAL has not recognised any internally generated assets such as customer lists, brands or gaming software in its financial statements. Employee costs incurred for development of new gaming software were not capitalised as they did not meet all criteria set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

OFF BALANCE SHEET FINANCIAL INSTRUMENTS

Off balance sheet financial instruments did not play a significant role in financing ZEAL in 2017. The Group holds a number of bank guarantee facilities totalling €3,006k (2016: €268k). These guarantees are required to obtain charity licences and to secure future obligations under rental agreements for office space.

At 31 December 2017, ZEAL had off-balance sheet future obligations from operating lease agreements for offices and technical equipment in the amount of €12,311k (2016: €14,559k). ZEAL has future obligations of €14,764k (2016: €20,011k) from agreements containing obligations from services, insurance, maintenance and licence agreements.

BALANCE SHEET STRUCTURE



FORECAST AND RISK REPORT

EXPECTED EARNINGS POSITION

For 2018, ZEAL Network expects to generate consolidated statutory TOP of €150m to €160m with consolidated EBIT between €33m and €43m.

RISK REPORT

RISK MANAGEMENT

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

As the ZEAL Group only holds a minority shareholding in the fully consolidated myLotto24 sub group, the assessment of risks within the Lottery Betting segment is substantively based on risk reports provided by segment management as part of regular and ad-hoc reporting. The risk related reporting mainly focuses on any new risks identified (and their perceived impact on the operating activities of the myLotto24 sub group and the ZEAL Group as a whole) together with segment management's assessment of any changes in the profile of previously identified specific risks around significant processes, controls and the wider segment governance. The completeness of the segment risk assessment is covered through frequent meetings held between ZEAL Group management and segment management where risk management is a standing agenda point.

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

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

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

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

MARKET AND SECTOR RISKS

General market risks

Risk

Continued success of the secondary lottery business is heavily dependent on the stability of the lottery markets in countries where myLotto24 operates. Declines in these lottery markets, due to falling advertising spend, a decrease in the product portfolio offered by primary lottery operators or a sustained period without jackpot pay-outs, is likely to have a negative impact on the results of our secondary lottery betting business. Furthermore, the entry of competitors into the market, especially online service providers, may also restrict further growth.

Management of risk

We have no direct control over the operation of the primary lotteries in the countries in which we trade. However, the management of myLotto24 performs continuous target and competitor analysis as well as reviews of the market conditions in the countries where its products are offered. Staff resources are allocated to markets proportional to the level of activity. The quality of the front end website and product suite offered is reviewed and updated frequently to maintain user interest.

Bookmaking risks of myLotto24 Limited

Risk

myLotto24 Limited bears the bookmaking risks for it's secondary lottery business where the pay-out ratios are based on those offered by the organisers of the primary lotteries. Due to statistical fluctuation differences, these ratios may be greater than the expected value for pay-out ratios determined by the gaming systems of the primary lotteries – for example, approximately 50% in the case of the German Lottery. They may even be temporarily greater than the stakes received by myLotto24 Limited. Insofar as they are not covered by existing effective hedging arrangements, higher than expected pay-out fluctuations, may have a significant negative effect on the financial position and performance of myLotto24 Limited and the ZEAL consolidated position and performance.

Management of risk

In 2011, myLotto24 set up a catastrophe bond (CAT bond) via an ILS vehicle to transfer a large amount of its jackpot payment risks to the capital market. In 2015 and again in 2017 (to commence in the 2018 financial year), that structure was amended and renewed to respond to the differing risk profile stemming from an increase in the products provided. As well as the ILS vehicle, myLotto24 manages it's risk through the purchase of physical hedged tickets and traditional insurance policies.

Upon completion of initial verification checks, myLotto24 Limited informs ZEAL Network immediately about individual pay-outs of €5m or more. ZEAL Network has communication guidelines which lead to the publication of such notifications.

Risk from economic downturn

Risk

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

Management of risk

myLotto24 monitors the macroeconomic environment of the countries where products are sold to ensure that any significant downturn risk is appropriately managed. This review process allows management to anticipate whether a decrease in personnel allocation or level of operations is required.

Currency risks

Risk

Since the incorporation of the UK company structure in 2009 and the wider internationalisation of the Group, there remains an element of currency risk generated by movements in local currencies against the Euro.

Management of risk

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

Risks from the processing of gaming operations

Risk

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

Management of risk

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

Tax and other duty risks

The Group engages in significant cross border activity in jurisdictions where the tax environment (specifically in the gambling sector)is subject to a lack of clarity over tax law interpretations. The recording of certain tax and other duty related transactions and disclosures can be complex by their nature and cannot be finally determined until a formal resolution has been reached with the relevant tax authority. Management has considered the treatment of all tax and other duty related items with the following items having the most significant impact on the Consolidated Financial Statements:

Tax audits

2012/2014 German tax audit

During 2017, the German tax office commenced a tax audit related to the tax years 2012 to 2014. Management has provided the tax office with all requested information and has received no communication since that time. The Directors are satisfied that no obligation exists and no related cash outflows or provisions are required.

VAT risk

Risk

Due to the changes in German VAT legislation introduced on 1 January 2015, there is judgement around whether certain services provided by the myLotto24 sub group are subject to VAT and the tax base on which any VAT payable would be calculated. Up to 31 December 2014, VAT liabilities on Electronically Supplied Services (ESS) to private consumers and non-taxable customers were accounted for based on the governing legislation of the country where the supplier was established. Effective 1 January 2015, amendments made to the German VAT Act (UStG) have been brought into law. These changes implement amendments to the EU Directive on the common system of value added tax (EU VAT Directive) which has now been adopted throughout the EU. In terms of the Group's operations, ESS provided to private consumers and non-taxable customers (i.e. those that are not deemed to be 'in business' for VAT purposes) are now taxable in the member state in which the recipient is established rather than in the supplier's country of establishment.

Management of risk

As the matter referred to above principally impacts the myLotto24 sub group, the Directors of myLotto24 Limited and Tipp24 Services Limited carried out a detailed analysis of the services provided to private and non-taxable consumers. This analysis considered changes to applicable laws in the EU member states in which the Group operates and included obtaining several legal and tax opinions from independent sector experts on the impact of the legislative changes. The Directors are satisfied sufficient diligence has been undertaken in considering the change of law to its business.

If we are unsuccessful in our defence of any case brought against the Group by the tax authorities, the resultant VAT liability could substantially lower the consolidated results of the Group. However, on the basis of a review of the facts and independent legal advice, the Directors of the Group consider that the likelihood of the outflow of economic benefits is not probable and, as such, no provision has been recorded in the Consolidated Financial Statements. The Group will continue to closely monitor any changes in this area and ensure that the accounting for VAT continues to comply with governing legislation. The Directors have reported a contingent liability on this matter and a separate disclosure is included in note 26 to the Consolidated Financial Statements.

Risks from payment transactions

Risk

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

Management of risk

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

Regulatory risks

Given that the German gambling regulation still prohibits the commercialisation of privately operated lotteries in Germany, there remains a risk German authorities and private operators may attempt to prevent the myLotto24 sub group from operating in line with its business model. While we believe the legal basis for action would not be consistent with EU law, it's possible that certain enforcement measures would disrupt the business activities of the myLotto24 sub group or prevent its ongoing viability.

Management of risk

We continue to closely monitor the German and wider EU legislative and regulatory environments and engage specialists where required.

Risks from cash and investments

Risk

At the end of the reporting period, ZEAL held cash in Germany, Spain and the UK totalling €92.1m (2016: €95.0m) in accounts with various major European banks. Certain financial institutions where ZEAL holds balances may default, which could lead to the partial or complete loss of our cash deposits.

Management of risk

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

Risk

At 31 December 2017, the Group held short-term financial assets of €27.1m (2016: €19.7m). The collapse of individual issuers of such securities may lead to the partial or complete loss of these financial assets.

Management of risk

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

Personnel risks

Risk

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

Management of risk

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

General business risks

Risk

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

Management of risk

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

Risks of non-payment by insurers

Risk

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

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

Management of risk

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

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

Risk

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

Management of risk

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

UK Withdrawal from European Union

Risk

On 29 March 2017, the UK Government invoked Article 50 of the Treaty of Lisbon, thereby formally notifying the European Council of the UK's intention to withdraw from the European Union (EU). This commences the process of negotiating an exit deal for the UK. The negotiation period set by Article 50 is two years. Therefore, the UK will leave the EU by 29 March 2019, unless either a deal is reached at an earlier date or the negotiation period is extended by unanimous consent of the European Council. Although it is unknown what the terms of the UK Withdrawal from European Union may be, there is the risk for increased global economic uncertainty, which may cause our customers to closely monitor their spending.

Management of risk

As uncertainties are resolved, this may require changes to financial and corporate reporting requirements. We will continue to monitor the negotiations between the UK and the EU, however in all scenarios the Group expects that the financial and regulatory impact will be minimal.

CSR REPORT

WE LOVE TO SUPPORT OUR COMMUNITY!

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

STRONG PARTNERS

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

PROMOTING SPORT WITH SPORTSAID

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

Since the Fund was established in 2014, we have supported 139 up-and-coming athletes in 43 different disciplines including winter and para-sports. As well as supporting the Fund, we organise a number of events throughout the year, promote our partnership with SportsAid and raise additional money. Examples include an athlete and parent networking evening, a full day athlete workshop at Loughborough University and internal fundraising challenges to raise further funds for the charity. ZEAL Group employees volunteer as Buddies to act as a point of contact for the athletes and their parents to share their achievements and upcoming competitions.

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ATHLETES SUPPORTED SINCE 2014

£205k+
DONATED TO GOOD CAUSES IN 2017

EMPOWERING NEIGHBOURHOODS

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

Since the launch of the fund in 2014, we have supported thirteen organisations across various London boroughs with grants of up to £10,000 each, per year. Projects include SUFRA, a community Food Bank and Kitchen and HAVEN, a charity working with survivors of abuse. Since 2014, the myLotto24 Good Neighbourhood Fund has helped improve the lives of 2000 people across London.

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

PROVIDING COMFORT

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

CARING FOR THE COMMUNITY

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

WE CARE FOR OUR PEOPLE

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

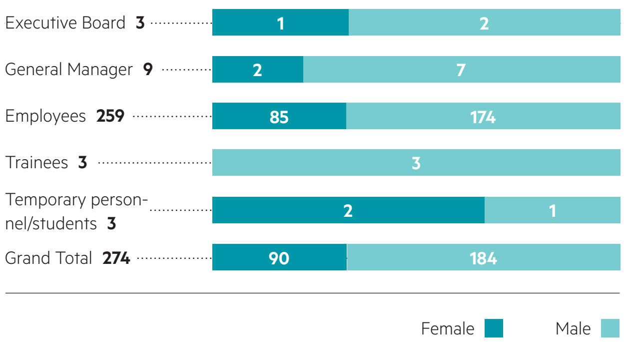
HIGHLY MOTIVATED EMPLOYEES AND TALENT DEVELOPMENT

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

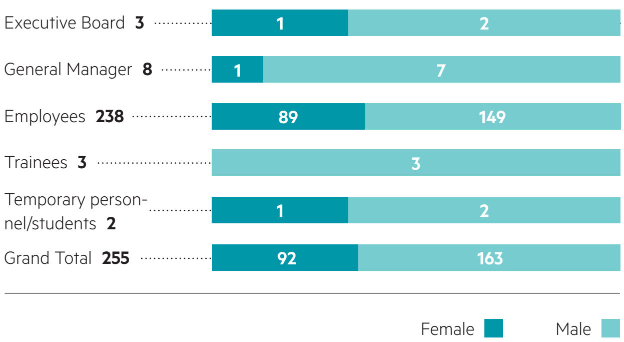
We consider instant feedback and continuous learning as essential and therefore offer every employee the opportunity to develop their knowledge. Training is delivered and encouraged in a number of flexible ways: allowing employees to participate in traditional on-site training, extending experiences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

During 2017, ZEAL Group invested €366k (2016: €554k) in training activities. Various staff training programs were offered across all employee levels including training and coaching in leadership, stakeholder management and effective presentations. Training is often tailored to meet individual needs and knowledge gaps. ZEAL also provides language lessons in German, Spanish and English to upskill staff and to break down internal language barriers that can exist in multinational companies.

2017



2016



DIVERSITY

ZEAL employees are truly diverse, which makes for an exciting, internationally aware and engaging working environment. Despite the fact that our industry (in general) continues to be predominantly male we manage to foster a culture which embraces and values diversity and encourages equal opportunities. The gender split of our board and second level management at 31 December 2017 can be seen above. To support and enable family life we offer flexible working hours and where possible options to work from home. For us, equality is not intended to be an aspiration but a reality. We recognise that we can always do more in this area and will be ambitiously reviewing possible opportunities to support diversity.

RESOURCE CONSERVATION

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

Dr. Helmut Becker
Chief Executive Officer
21 March 2018

5.05%
INTENSITY RATIO

678.1
CO_2 (METRIC TONNES)*

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

ZEAL SHARES

SIGNIFICANT SHAREHOLDERS

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

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

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

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

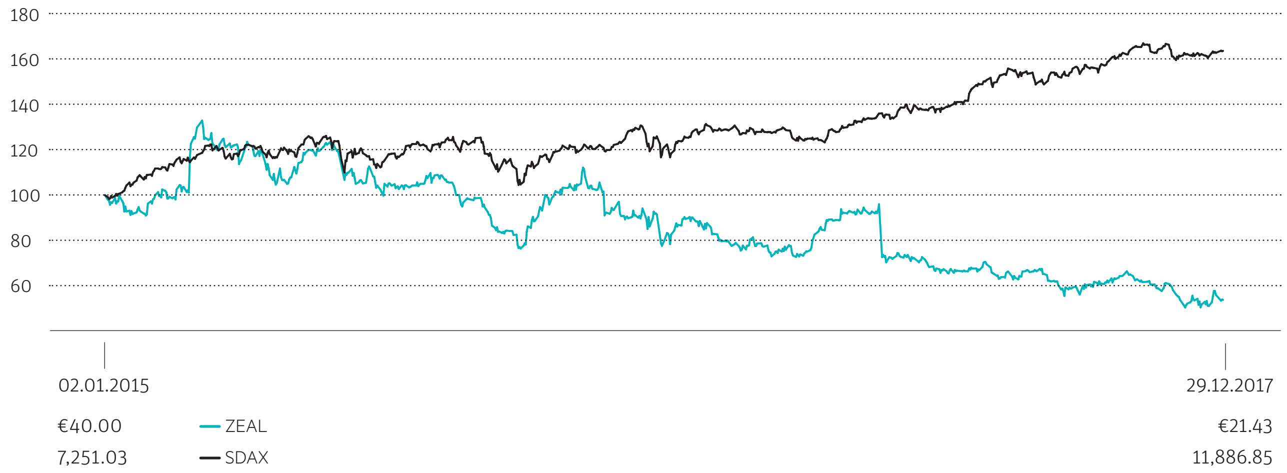
Under Section 15a of the German Securities Trading Act (Wertpapierhandelsgesetz), transactions in the Company's shares executed by members of the Executive Board and Supervisory Board and their family members (Directors' dealings) are reported and published immediately after the Company is made aware.

Clearstream Banking AG is classified as the legal owner of 100% (2016: 100%) of the Company's listed shares. Clearstream Banking does not exercise any control over the Company or the Group. Based on information received by the Company at 31 December 2017 (including TR-1 notifications, notifications of Directors' dealings and other notifications pursuant to Section 21 of the German Securities Trading Act prior to the transfer of the Company's corporate seat to the UK), as far as the Company is aware, persons or funds holding a significant beneficial interest in the Company (i.e. greater than 3%) as at 31 December 2017 and as at the date of this report are set out below:

10.22%	Oliver Jaster (held indirectly through a chain of controlled undertakings: Günther SE, Günther Holding SE, Othello Drei Beteiligungs-Management GmbH, Othello Drei Beteiligungs GmbH & Co. KG)
5.04%	Farringdon Capital Management (held indirectly via (1) Farringdon I – SICAV, (2) Farringdon II SICAV and (3) Blackwell Partners Series A)
5.03%	LRI Investment S.A.
4.99%	Schroders plc (held through a chain of controlled undertakings: Schroder Investment Management Limited, Schroder Investment Management North America Limited)
4.82%	Marc Peters

No other holdings of 3% or more of the voting rights in the Group, have been notified to the Group between 1 January 2017 and 21 March 2018, both dates inclusive.

PERFORMANCE OF ZEAL SHARE (INDEX 30.12.2014 = 100)



Key share figures	
Day of initial listing	**12/10/2005**
Year-opening price	**€36.89**
Market capitalisation (year-opening)	**€309.3m**
Year-end price	**€21.43**
Market capitalisation (year-end)	**€179,691k**
Highest Price (26/01/2017)	**€38.38**
Lowest Price (22/11/2017)	**€20.09**
Number of outstanding shares (31/12/2017)	**8,385,088**
Average daily trading	**€1,269k**
Dividend for 2017 (per share)	**€1.00**

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

WHY INVEST?

- **Sustainable cash generating core business**
- **Strong financial position to fund growth**
- **Leading expertise in online lottery-based products**
- **Long term shareholder value creation**

GOVERNANCE

EXECUTIVE BOARD AND SUPERVISORY BOARD

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

1. DR. HELMUT BECKER

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

2. JONAS MATTSSON

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

3. SUSAN STANDIFORD

Executive Director (COO)
Susan Standiford has been Chief Technology Officer since May 2015. Recently Susan's role evolved from Chief Technology Officer to Chief Operating Officer. In addition to her previous role, she now also leads the Group's HR function and is General Manager for the Lottovate brand. With over 20 years of experience in the software development and information technology sectors, she has developed vast expertise in delivering innovative, value-based solutions in Lottery Betting and Lottovate businesses. Prior to joining ZEAL, she was the CTO of Rue La La, a leading private shopping portal in the US, and she previously worked as Vice President of Technology at both Travelocity and Disney Online. Mrs Standiford is a US citizen and holds a Bachelor of Arts in Anthropology/Mathematics from the University of Illinois at Urbana-Champaign.

4. PETER STEINER

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

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

5. LESLIE-ANN REED – APPOINTED 14 JULY 2017

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

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

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

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

Committee Membership: Chair of Audit Committee

6. THORSTEN H. HEHL

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

Committee Membership: Audit Committee

7. OLIVER JASTER

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

Committee Membership: Chairman's Committee

8. BERND SCHIPHORST

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

9. JENS SCHUMANN

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

Committee Membership: Chairman's Committee

10. ANDREAS DE MAIZIÈRE – RESIGNED 30 JUNE 2017

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

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

CORPORATE GOVERNANCE REPORT

COMPLIANCE

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

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

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

THE EXECUTIVE BOARD

ROLE

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

COMPOSITION

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

THE SUPERVISORY BOARD

ROLE

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

COMPOSITION

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

Peter Steiner is the current Chairman of the Supervisory Board and has held this position since 30 June 2017. He succeeded Andreas de Maizière as Chairman of the Supervisory Board who resigned as of the 2017 AGM. Peter is responsible for organising and coordinating the work of Supervisory Board, chairing its meetings and attending to the affairs of the Supervisory Board externally. He is also responsible for maintaining regular contact with the Chairman of the Executive Board and informing the Supervisory Board of important events in relation to the management of the Company and, if required, convening extra-ordinary meetings of the Supervisory Board. The other members of the Supervisory Board are: Leslie-Ann Reed (Vice-Chair), Thorsten Hehl, Oliver Jaster, Bernd Schiphorst and Jens Schumann.

DIVERSITY

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

BOARD MEETINGS 2017

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

The Supervisory Board held a total of four meetings in 2017, which were attended by all members who held current positions at the time of the meeting.

BOARD SUPPORT

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

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

BOARD EVALUATION

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

BOARD COMMITTEES

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

CHAIRMAN'S COMMITTEE

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

The Committee meets as required. It held four meetings in 2017, which were attended by all members.

Details of the Group's internal control and risk management systems are included in the Audit Committee Report on pages 38 to 40 and disclosures required in relation to the takeover directive are included in the Directors' Report on pages 56 to 58.

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

Dr. Helmut Becker
Chief Executive Officer
21 March 2018

AUDIT COMMITTEE REPORT

The Audit Committee's overarching responsibilities are to oversee the external audit and to monitor the effectiveness of the Company's framework of internal control.

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

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

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

Name	Appointment Date	Committee Role
Leslie-Ann Reed	14 July 2017	Chair
Peter Steiner	28 June 2013	Member
Thorsten Hehl	28 June 2013	Member
Andreas de Maizière	28 June 2013	Former member who resigned on 30 June 2017

Leslie-Ann Reed is the Chair of the Audit Committee, having replaced Peter Steiner on 14 July 2017. The Chair has the required specialist knowledge and experience in both the application of accounting principles and internal control procedures to ensure that the Company's Corporate Governance Principles are complied with. She is independent and has not previously been a Member of the Executive Board.

Andreas de Maizière resigned from his role as a member of the Audit Committee as of the 2017 AGM, on 30 June 2017.

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

The Audit Committee meets as required. It held a total of 12 meetings during the course of 2017, which were attended by all members who held current positions at the time of the meeting. The Chief Financial Officer attends the Audit Committee meetings. Members of the Supervisory Board and Executive Board or senior executives may attend meetings upon invitation from the Committee. The meetings in which the Committee reviewed and discussed the audit plan for 2017, the interim audit update and the annual accounts were also attended by representatives of the external auditor, Ernst & Young LLP.

AUDIT COMMITTEE'S WORK IN 2017

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

VAT risk
There is significant uncertainty as to whether VAT is due in respect of certain services provided by the myLotto sub group to customers domiciled in the European Union from 1 January 2015. Furthermore, there is uncertainty in respect of the tax base to be applied in the event that it is ultimately determined that VAT is due on any of these services. During 2017, the Audit Committee has received regular briefings regarding this matter. Based on these briefings, the Audit Committee has concluded (in line with the 2016) that it is unlikely that any liability will arise and agreed with the decision not to record any liability in the financial statements.

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

Legal and regulatory environment

As part of the ongoing regulatory compliance and operational risk assessment process, the Audit Committee is provided with regular updates on regulatory and legal developments and considers their potential impact on the financial statements and the long term viability of the business. The Group is subject to legal cases concerning its ability to provide secondary lottery products in Germany. The Audit Committee has been provided with legal advice as to the manner in which it should respond and the likelihood of success of such actions. Where the Directors are able to quantify reliably any material outflow of funds, the Audit Committee agrees with the quantum of the provision recorded in note 20 to the Consolidated Financial Statements.

Review of the Annual Report and Financial Statements

The Audit Committee has reviewed the Annual Report and Financial Statements – including the report of the external auditor – for the year ended 31 December 2017 as issued in March 2018. In addition, it reviewed the quarterly financial statements issued in May, August and November 2017. As part of these activities, the Audit Committee has reviewed the key accounting treatments and judgements taken throughout the year (including those listed above).

External auditors

In relation to the external auditors, the Audit Committee has deliberated about whether or not to recommend their reappointment, reviewed the external audit plan in advance of the audit for the year ended 31 December 2017, approved the external audit fee, and performed an assessment of their effectiveness. More detail on this element of the Audit Committee's activities is included in a separate section below.

Internal control and risk management systems

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

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

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

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

EXTERNAL AUDITOR AND NON-AUDIT WORK

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

The external auditor takes part in Audit Committee meeting on the annual Consolidated Financial Statements and reports on the results of its audit. The external auditor also attends the Audit Committee meetings to discuss the audit plan for 2017 and provide an interim audit update.

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

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

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

Details of the amounts paid to the external auditor during the year for audit and other services are set out on page 94 of this Annual Report.

INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS

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

The internal control framework comprises principles, procedures and measures that are geared towards the implementation of controlled management decisions. It is designed to ensure the effectiveness and efficiency of business activities (including the protection of assets and the prevention and disclosure of asset impairment), the quality and reliability of internal and external accounting, compliance with the legal frameworks that the Company must adhere to, and to ensure that measures are in place that safeguard proper IT-based processing and data.

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

- The Executive Board is responsible for the internal control and risk management framework with regard to the accounting and consolidation processes.
- The reporting structure relating to all companies included in the Consolidated Financial Statements requires that significant risks are to be reported immediately to the Executive Board by the individual businesses on identification.
- The principles, structure and organisation of the accounting-related internal control and risk management system are documented in guidelines and organisational directives. These are regularly adapted to reflect external and internal developments.
- Certain accounting-related processes (in particular payroll) are outsourced.

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

- Identification of significant risk and control areas of relevance to the Group-wide accounting process,
- Controls to monitor the consolidation process and its results at the level of the Executive Board and at the level of the companies included in the Consolidated Financial Statements,
- Preventative control measures in the accounting system of the Group and in the processes that generate significant information used to prepare the Consolidated Financial Statements – areas include the Group management report, segmental analysis and commitment disclosures.

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

Reviews of segmental results are performed by the Business Controlling team. The Business Controlling team is responsible for preparation of all monthly, quarterly and annual internal reporting. This reporting contains detailed analysis and narrative reviews of the Income Statement, the Statement of Financial Position and the Statement of Cash Flows compared to budgeted, forecasted and comparative results. These reports are provided to the Audit Committee and Board of Directors.

Leslie-Ann Reed
Member of the Supervisory Board and
Chair of the Audit Committee
21 March 2018

DIRECTORS' REMUNERATION REPORT

CHAIRMAN OF THE COMMITTEE'S ANNUAL STATEMENT

Dear Shareholder,

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

I am pleased to present below the Directors' remuneration report for the financial year ended 31 December 2017. I have summarised the Company's performance for the current financial year, the impact that this performance has had on the remuneration of the Executive Board members and summarised the remuneration policy which became effective for the 2016 financial year and thereafter as approved by the shareholders at the June 2016 AGM.

Remuneration policy

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

We will submit the remuneration policy for shareholder approval every three years unless a change in the policy is proposed. There has been no change in the remuneration policy during 2017.

Performance and outcome

For the year ended 31 December 2017, the Group delivered strong normalised revenue and normalised EBIT. The remuneration policy effective for the 2017 financial year saw the Executive Board members achieve their short-term incentive (STI) bonus targets and their transitional incentive targets. For two members of the Executive Board, their long-term incentives (LTIs) performance obligations finished during the year. Payments for bonuses awarded for the 2017 period are expected to be made to the Executive Board members in March 2018.

Chairman's Committee changes and attendance at meetings during 2017

During the year, Peter Steiner replaced Andreas de Maizière as Chairman of the Chairman's Committee. Andreas de Maizière resigned as of the 2017 AGM on 30 June 2017. The Committee comprises Oliver Jaster and Jens Schumann and is chaired by Peter Steiner. All Committee members attended all meetings during the course of the year. Meetings in the 2017 financial year were held on 25 January 2017, 3 March 2017 and 4 December 2017.

Peter Steiner
Chairman of the Chairman's Committee
21 March 2018

REMUNERATION AT A GLANCE

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

in €k	Fixed Pay			Variable pay				Total compensation		
Name	Base Pay	Retirement and other benefits	Other payments (non-recurring)	Short-term incentives	Mid-term incentives	Long-term incentives[1]	Transitional incentives	**2017**	2016	Change %
Dr. Helmut Becker (Chief Executive Officer)	605	11	–	409	–	–	292	1,317	1,371	(4%)
Jonas Mattsson (Chief Financial Officer)	396	11	38[2]	264	–	136	213	1,058	1,077	(2%)
Susan Standiford (Chief Operating Officer)	373	11	85[3]	249	–	172	157	1,047	1,019	3%

[1] Long-term incentives relate to cash settled share based payments where the performance period ended in 2017.
The final outcome of these long-term incentives is known, however the amounts are subject to forfeiture until the incentives are received.
[2] Mr Mattsson's other payments relate to reimbursement of tax incurred on relocation costs and a one off supplement where the Group changed its taxable benefit in kind arrangement.
[3] Ms Standiford's other payments relate to a sign-on bonus and a one off supplement where the Group changed its taxable benefit in kind arrangement.

The Executive Board member's remuneration is recorded in note 23 to the consolidated financial statements.

REMUNERATION POLICY

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

REMUNERATION POLICY

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

ROLE OF THE REMUNERATION COMMITTEE

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

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

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

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

REMUNERATION PHILOSOPHY

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

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

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

ALIGNMENT OF STRATEGY, PAY AND PERFORMANCE

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

REMUNERATION POLICY EFFECTIVE 1 JANUARY 2016

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

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

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

Long-term incentives granted to the CFO and COO between 1 January 2015 and 31 December 2017, are calculated under the remuneration policy that existed at 31 December 2015. In addition a new remuneration policy effective 1 January 2016 was approved at the AGM on 22 June 2016. The full Executive Board comprising the CEO, CFO and COO are entitled to participate in the new plan. As such, the CFO and COO participated in both schemes during 2016 and 2017.

The long-term incentives within the remuneration policy have been designed to represent 25% of the overall remuneration package for all Executive Directors (based on 100% achievement of long-term incentive targets). Target achievement will be measured based on pre-determined Earnings per Share (EPS) and Total Shareholder Return (TSR) levels. Assessment of target achievement will be reviewed at the end of every three-year cycle (January or February of the following period) and equal weighting will be placed on the targets noted above. A monetary value will be computed based on average achievement of the pre-defined LTI targets over the three year performance period. This monetary value will be converted into an associated number of shares based on the average share price during a pre-determined period (generally a three month period immediately preceding the commencement of the three year performance period). The LTI payment made to each Executive Director following completion of the three year performance period will amount to the cash equivalent of the number of notional shares granted multiplied by an average share price during a separate pre-defined time period towards the end of the performance period. This method of remuneration allows each Executive Director to be fairly compensated based on the performance of the Group over the performance period. Over-achievement of targets is permitted under the policy and the quantum of LTI payment will be based on the performance of the Group as a whole over the three year period.

As part of the remuneration policy, the mid-term incentive scheme for Executive Directors has been discontinued. Any benefits accruing to Executive Directors as part of their mid-term performance were split between the revised STI and LTI schemes.

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

TRANSITION TO THE NEW REMUNERATION POLICY

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

REMUNERATION POLICY TABLE

There have been no changes to the Company's view of the necessity to align pay to performance, business strategy and the overarching goal to create value for the Company's shareholders.

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

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

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

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

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

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

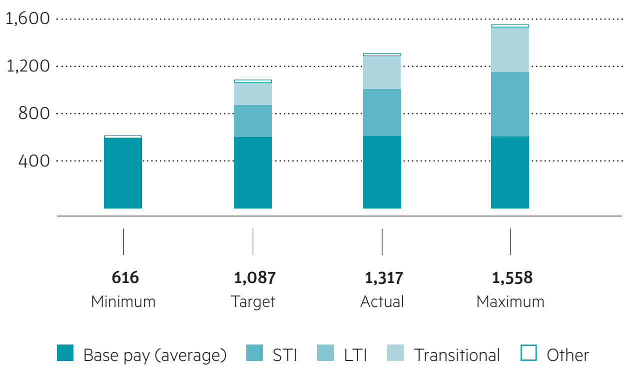
INDICATIVE REMUNERATION LEVELS RESULTING FROM POLICY

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

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

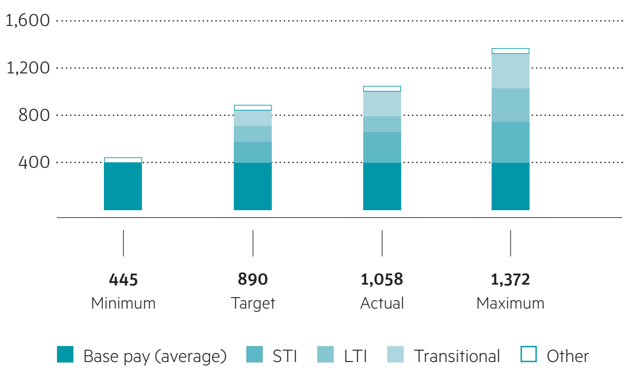
DR. HELMUT BECKER

in €k



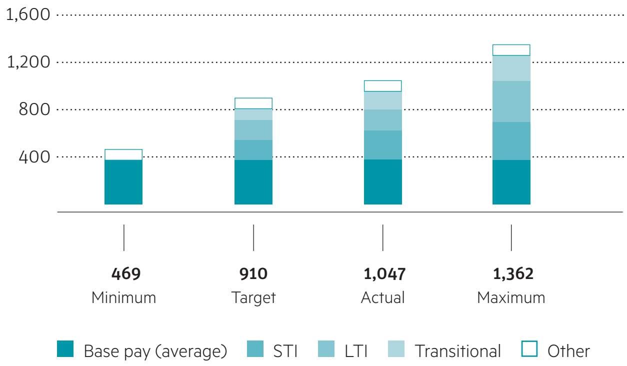
JONAS MATTSSON

in €k



SUSAN STANDIFORD

in €k

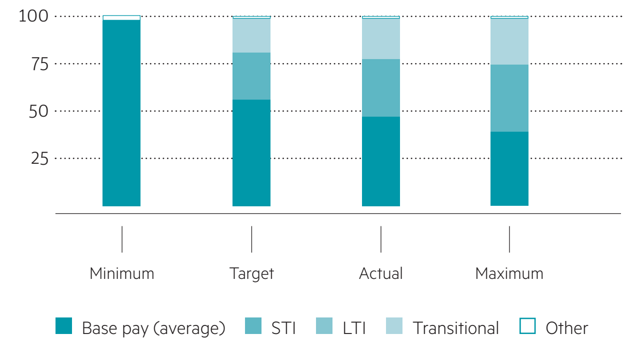


Percentage of total remuneration

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

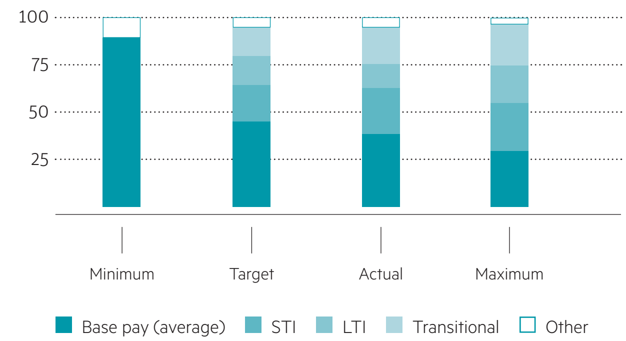
DR. HELMUT BECKER

in %



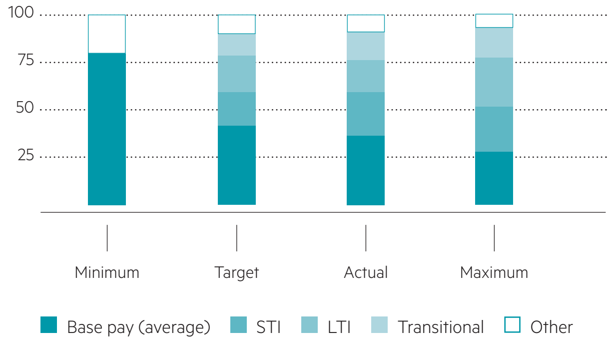
JONAS MATTSSON

in %



SUSAN STANDIFORD

in %



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

Dr. Helmut Becker	Base Pay	Retirement and other benefits	Other payments (non-recurring)	Short-term incentives	Long-term incentives	Transitional incentives	Total
in €k							
Minimum	605	11	–	–	–	–	**616**
Target	605	11	–	275	–	196	**1,087**
Actual	605	11	–	409	–	292	**1,317**
Maximum	605	11	–	550	–	392	**1,558**

Jonas Mattsson	Base Pay	Retirement and other benefits	Other payments (non-recurring)	Short-term incentives	Long-term incentives	Transitional incentives	Total
in €k							
Minimum	396	11	38	–	–	–	**445**
Target	396	11	38	178	136	131	**890**
Actual	396	11	38	264	136	213	**1,058**
Maximum	396	11	38	356	272	299	**1,372**

Susan Standiford	Base Pay	Retirement and other benefits	Other payments (non-recurring)	Short-term incentives	Long-term incentives	Transitional incentives	Total
in €k							
Minimum	373	11	85	–	–	–	**469**
Target	373	11	85	167	172	102	**910**
Actual	373	11	85	249	172	157	**1,047**
Maximum	373	11	85	334	344	215	**1,362**

Long-term incentives relate to cash settled share based payments where the performance period ended in 2017. The final outcome of these long-term incentives is known, however the amounts are subject to forfeiture until the incentives are received in March 2018. Long-term incentives are only included in total remuneration when the performance conditions are substantially complete.

RECRUITMENT OF DIRECTORS

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

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

SERVICE CONTRACTS

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

All Executive Directors' service contracts are available for inspection at the Company's registered office during normal hours of business, and at the Company's 2017 AGM.

EXECUTIVE BOARD

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

SUPERVISORY BOARD

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

Supervisory Board	Commencement of service	Expiry of service	Contract term
Peter Steiner	22 June 2016	2019 AGM	3 years
Oliver Jaster	22 June 2016	2019 AGM	3 years
Thorsten Hehl	22 June 2016	2019 AGM	3 years
Bernd Schiphorst	22 June 2016	2019 AGM	3 years
Jens Schumann	22 June 2016	2019 AGM	3 years
Leslie-Ann Reed	14 July 2017	2019 AGM	2 years
Andreas de Maizière	22 June 2016	30 June 2017	Resigned

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

REMUNERATION OF SUPERVISORY BOARD MEMBERS

In addition to the reimbursement of their expenses, the members of the Supervisory Board receive a fixed annual remuneration of €45.5k for every full financial year served in that capacity (€136.5k for the Chairman and €91.0k for the deputy Chairman).

For every membership of a committee of the Supervisory Board, members of the Supervisory Board shall receive an additional annual remuneration of €17.5k (or €35.0k for the Chairman).

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

AUDITED INFORMATION

EXECUTIVE DIRECTORS' EMOLUMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

The following table sets out the total remuneration for Executive Directors for the year ended 31 December 2017:

Executive Directors	Year	Total salary (a)	Retirement and other benefits (b)	Other payments – non-recurring	LTI award[3] (c)	MTI award (d)	STI award (e)	Transitional awards (f)	Total
in €k									
Dr. Helmut Becker	2017	605	11	–	–	–	409	292	**1,317**
Dr. Helmut Becker	2016	605	12	–	–	–	386	276	**1,279**
Jonas Mattsson	2017	396	11	38[1]	136	–	264	213	**1,058**
Jonas Mattsson	2016	425	12	–	–	–	274	202	**913**
Susan Standiford	2017	373	11	85[2]	172	–	249	157	**1,047**
Susan Standiford	2016	399	12	–	–	–	258	157	**826**

[1] Mr Mattsson's other payments relate to reimbursement of tax incurred on relocation costs and a one off supplement where the Group changed its taxable benefit in kind arrangement.
[2] Ms Standiford's other payments relate to a sign-on bonus and a one off supplement where the Group changed its taxable benefit in kind arrangement.
[3] Long-term incentives relate to cash settled share based payments where the performance period ended in 2017. The final outcome of these Long-term incentives is known, however the amounts are subject to forfeiture until the incentives are received in March 2018.

METHODOLOGY

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

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

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

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

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

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

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

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

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

PAYMENTS TO PAST DIRECTORS AND PAYMENTS FOR LOSS OF OFFICE

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

NON-EXECUTIVE DIRECTORS' EMOLUMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

The following table sets out the total remuneration for non-executive Directors (members of the Supervisory Board) for the year ended 31 December 2017:

Supervisory Board	Year	Total fees	Other remuneration	**Total**
in €k				
Peter Steiner	2017	152	14	**166**
Peter Steiner	2016	126	9	**135**
Oliver Jaster	2017	63	2	**65**
Oliver Jaster	2016	63	4	**67**
Thorsten Hehl	2017	63	3	**66**
Thorsten Hehl	2016	63	2	**65**
Bernd Schiphorst	2017	46	4	**50**
Bernd Schiphorst	2016	46	4	**50**
Jens Schumann	2017	63	5	**68**
Jens Schumann	2016	63	1	**64**
Leslie-Ann Reed	2017	63	–	**63**
Leslie-Ann Reed	2016	–	–	**–**
Andreas de Maizière	2017	100	8	**108**
Andreas de Maizière	2016	172	7	**179**

DIRECTORS' INTERESTS IN SHARES

Details of the Directors' share interests as at 31 December 2017, or at date of cessation of Directorship, are as follows:

Beneficially owned		2016	Changes	**2017**
Shares				
Dr. Helmut Becker[1]	CEO	1,392	–	**1,392**
Jonas Mattsson[1]	CFO	1,000	–	**1,000**
Susan Standiford[1]	COO	950	1,335	**2,285**
Oliver Jaster[1] indirect	Member of the Supervisory Board	857,334	–	**857,334**
Jens Schumann[1]	Member of the Supervisory Board	250,000	–	**250,000**

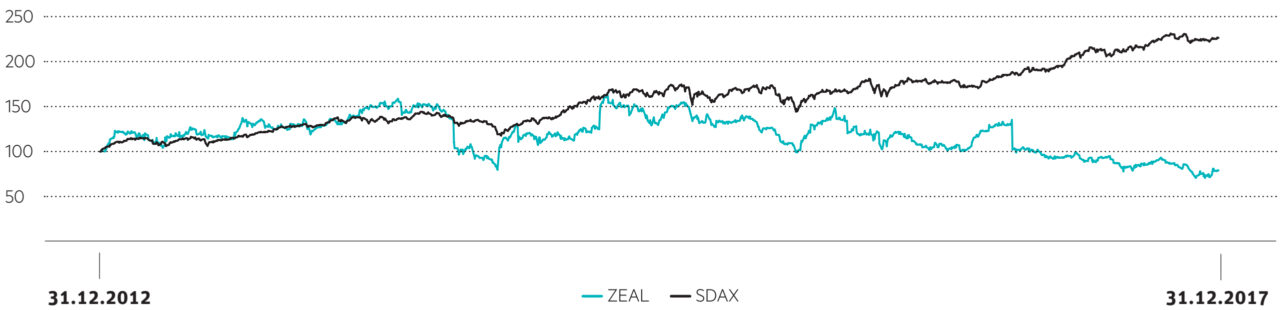
[1] *The following dividends were paid to each of the Directors during the 2017 financial year: Dr. Helmut Becker – €1,392 (2016: €3,898), Jonas Mattsson – €1,000 (2016: €2,800), Susan Standiford – €2,285 (2016: €1,995), Oliver Jaster – €857,334 (2016: €2,400,535) and Jens Schumann – €250,000 (2016: €840,000).*

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

HISTORICAL TSR PERFORMANCE AND CEO REMUNERATION OUTCOMES

As the Company's shares are listed in the German SDAX index, the SDAX provides an appropriate indication of market movements against which to benchmark the Company's performance. The chart below summarises the Company's total shareholder return (TSR) performance against the SDAX index over the five-year period to 31 December 2017.

5-YEAR TSR PERFORMANCE



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

	2013	2014	2015	2016	**2017**
in €k	Dr. Cornehl	Dr. Cornehl	Dr. Cornehl	Dr. Becker	Dr. Becker
Total remuneration	919	798	1,006	1,279	**1,317**
Short-term incentives (% of maximum)	65.5%	40.0%	63%	70%	**74%**
Mid-term incentives (% of maximum)	25.3%	9.6%	18%	N/A	**N/A**
Long-term incentives (% of maximum)	N/A	N/A	98%	50%	**N/A**
Transitional incentives (% of maximum)	N/A	N/A	N/A	70%	**74%**

PERCENTAGE CHANGE IN REMUNERATION OF THE CHIEF EXECUTIVE OFFICER

The following table shows the percentage change in remuneration comprising basic salary, benefits and bonus between the financial year ended 31 December 2016 and the financial year ended 31 December 2017 for the CEO compared to the average of all UK ZEAL Group employees. Given the global nature of ZEAL's operations, and the diverse pay markets in which our employees operate, the UK employees were deemed to provide the most appropriate comparator to the Chief Executive.

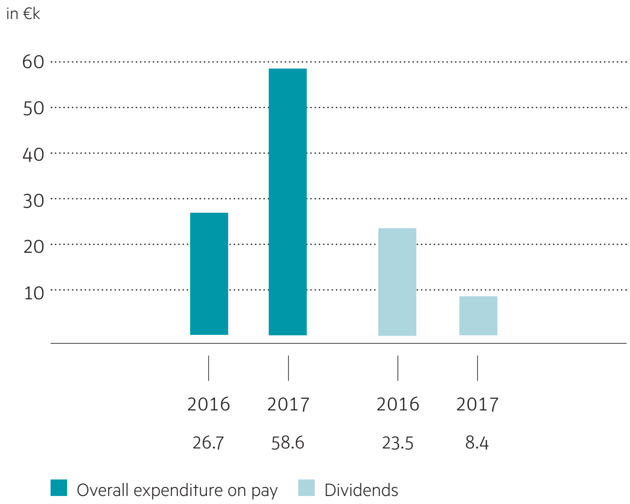
	% change in base salary 2017/2016	% change in annual bonus 2017/2016
CEO	0	6
All colleagues	4	(19)

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

RELATIVE IMPORTANCE OF THE SPEND ON PAY

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

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



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

DIRECTORS' REPORT

The Directors of ZEAL Network SE present their Annual Report and audited financial statements for the year ended 31 December 2017. These financial statements have been prepared under IFRS (as adopted by the EU) and are available on the Company's website: http://zeal-network.co.uk

GENERAL COMPANY INFORMATION

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

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

BRANCHES OUTSIDE THE UK

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

FUTURE DEVELOPMENTS

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

DIVIDENDS

The Company declared a dividend of €1.00 per share on 6 December 2017 and paid it on 29 December 2017.

For proceeding periods, the Executive Board has proposed, and the Supervisory Board has approved, a dividend policy under which the Company intends to pay annual dividends, which are expected to amount to a total of at least €1.00 per share in 2018, subject to financial performance.

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

RESEARCH AND DEVELOPMENT

The Group did not perform any research and development activity during 2017. Further, no costs met the definition of development costs under IAS 38 'Intangible assets'.

POLITICAL DONATIONS AND POLITICAL EXPENDITURE

No political donations or political expenditure was incurred during 2017.

POST STATEMENT OF FINANCIAL POSITION EVENTS

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

DIRECTORS

The Directors that served during the year and were in office at 31 December 2017, together with their biographies, are listed on pages 34 to 35 of this report.

POWERS OF DIRECTORS

The Executive Board is authorised, subject to the approval of the Supervisory Board, to allot ordinary shares. It is also duly authorised to grant rights to subscribe for, or to convert any security into, ordinary shares ('Subscription or Conversion Rights') up to an aggregate nominal amount of €1,197k. This authority will expire on 21 June 2021 unless the Company enters into offers or agreements before this date, which would require ordinary shares to be allotted or Subscription or Conversion Rights to be granted after the expiry date. In this case, the Directors are unconditionally authorised to allot, subscribe or convert shares in accordance with the terms of any such agreement entered into.

DIRECTORS' REMUNERATION AND INTERESTS

Directors' remuneration and interests are detailed in the Directors' Remuneration Report on pages 41 to 53 of this report. Material interests in any contract of significance with any Group company during the year ended 31 December 2017 are set out in note 27 to the Consolidated Financial Statements.

DIRECTORS' THIRD-PARTY INDEMNITY PROVISIONS

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

ELECTION AND RE-ELECTION OF DIRECTORS

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

EMPLOYMENT, ENVIRONMENTAL AND SOCIAL POLICIES

The Group's employment, environmental and social policies are set out on pages 29 to 31.

FINANCIAL INSTRUMENTS

The Group's financial risk management policies and exposures to risk – especially credit risk, liquidity risk and cash flow risk – can be found in note 29 to the Consolidated Financial Statements.

PURCHASE OF OWN SHARES

ZEAL is currently not authorised to acquire its own shares.

MAJOR SHAREHOLDINGS

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

SHARE CAPITAL

Details of the movements in the authorised and issued share capital are set out in note 21 to the Consolidated Financial Statements. The rights and obligations attaching to the Company's ordinary registered shares of the Company are set out in the Company's Statutes.

VOTING RIGHTS AND RESTRICTIONS ON THE TRANSFER OF SHARES

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

CORPORATE SOCIAL RESPONSIBILITY

ZEAL is a socially responsible company committed to its stakeholders. We adopt a holistic approach to our decision-making process, ensuring that we give due consideration to the social and ecological impact of our business. Further details on our CSR activities are set out on pages 29 to 31.

GOING CONCERN

The Directors have formed a judgement at the time of approving the financial statements that there is a reasonable expectation that ZEAL has adequate resources to continue for the foreseeable future. The Group holds €92.1m in cash (2016: €95.0m) and short-term financial assets of €27.1m (2016: €19.7m) at the year-end. The Group expects to deliver revenue and profit growth in the period ahead. For these reasons, the Directors have adopted the going concern basis in preparing the financial statements.

CORPORATE GOVERNANCE

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

PRINCIPAL RISKS AND UNCERTAINTIES

The Company is exposed to a number of risks and uncertainties that could affect the performance of the Company and its prospects. The Executive Board and specifically the Supervisory Board's Audit Committee are responsible for the Company's process of internal control and risk management and for reviewing its continuing effectiveness. They ensure, to the greatest extent possible, that the system of internal procedures and controls is appropriate to the nature and scale of the Company's activities and that appropriate processes and controls are in place to effectively manage and mitigate strategic, operational, financial and other risks facing the Company. A detailed list of risks and their management are set out on pages 24 to 28 of this report.

TAKEOVERS DIRECTIVE

As at 31 December 2017, the Company's issued share capital comprised a single class of share referred to as ordinary shares. Details of the share capital can be found in note 21 to the Consolidated Financial Statements. On a show of hands at a General Meeting of the Company, every holder of shares present in person and entitled to vote shall have one vote, and on a poll every member present in person or by proxy and entitled to vote shall have one vote for every ordinary share held. The notice of the General Meeting specifies deadlines for exercising voting rights either by proxy notice or by presence in person or by proxy in relation to resolutions to be passed at a General Meeting. All proxy votes are counted and the numbers for, against or withheld in relation to each resolution are announced at the AGM and published on the Company's website after the meeting. There are no securities carrying special rights, nor are there any restrictions on voting rights attached to the ordinary shares. There are no restrictions on the transfer of shares in the Company other than:

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

Details of changes in share capital can be found in note 21 to the Consolidated Financial Statements. The Company did not purchase its own shares during 2017. Furthermore, the Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities and for voting rights. In the case of a change in control of the Company, no Executive Board members have a change of control clause.

There are no agreements between the Company and its Directors or employees providing for compensation for loss of office or employment (whether through resignation, purported redundancy or otherwise) that occur because of a takeover bid. The agreement between the Company and its Directors for compensation for loss of office are given in the Directors' Remuneration Report on pages 41 to 53 of this report. The Statutes may only be amended by a special resolution at a General Meeting of shareholders.

ANNUAL GENERAL MEETING

The notice convening the AGM will be published separately and posted on the Company's website. The meeting is planned to be held in London on 1 June 2018 at 9:00 am.

AUDITOR

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

AUDITOR AND DISCLOSURE OF INFORMATION TO THE AUDITOR

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

The Annual Report was approved by the Executive Board and Supervisory Board and authorised for issue on 21 March 2018 and signed on behalf of the Executive Board and the Supervisory Board:

By order of the Executive Board and the Supervisory Board

Dr. Helmut Becker
Chief Executive Officer
21 March 2018
ZEAL Network SE
5th Floor – One New Change, London EC4M 9AF, UK
Registered number SE000078

STATEMENT OF DIRECTORS' RESPONSIBILITIES

IN RESPECT OF THE ANNUAL REPORT AND THE FINANCIAL STATEMENTS

The Directors are responsible for preparing the Annual Report and the Group and parent company financial statements in accordance with the applicable law and regulations. Company law requires the Directors to prepare Group and parent company financial statements for each financial year. Under that law the Directors have prepared the Group and parent company financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the parent company and of the profit or loss of the Group for that period.

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

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

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

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

DIRECTORS' STATEMENT PURSUANT TO THE DISCLOSURE AND TRANSPARENCY RULES

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

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

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

By order of the Executive Board and the Supervisory Board

Dr. Helmut Becker
Chief Executive Officer
21 March 2018

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

OPINION

In our opinion:

- ZEAL Network SE's Group and Parent company financial statements ('the financial statements') give a true and fair view of the state of the Group's and of the Parent company's affairs as at 31 December 2017 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent company financial statements been properly prepared in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the Group financial statements, Article 4 of the IAS Regulation.

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

Group	Parent company
Consolidated income statement for the year then ended	Statement of financial position as at 31 December 2017
Consolidated statement of comprehensive income for the year then ended	Statement of cash flows for the year then ended
Consolidated statement of financial position as at 31 December 2017	Statement of changes in equity for the year then ended
Consolidated statement of cash flows for the year then ended	Related notes A to K to the financial statements
Consolidated statement of changes in equity for the year then ended	
Related notes 1 to 30 to the consolidated financial statements including a summary of significant accounting policies	

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

BASIS FOR OPINION

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

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

USE OF OUR REPORT

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

CONCLUSIONS RELATING TO GOING CONCERN

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

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

OVERVIEW OF OUR AUDIT APPROACH

Materiality	■ Overall Group materiality of €1,206k, which represents 0.5% of the Group's stakes. Materiality for our 2016 audit was €1,876k, based on the Group's earnings before interest and tax ('EBIT').
Audit scope	■ The components where we performed full or specific scope audit procedures accounted for 100% of the Group's stakes, 95% of the Group's revenue and 90% of the Group's total assets.
Key audit matters	■ German VAT ■ Legal and regulatory risk ■ Inappropriate revenue recognition

OUR KEY AUDIT MATTERS

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

Risk	Our response to the risk	Key observations communicated to the Audit Committee
German VAT		
There is significant uncertainty as to whether VAT in Germany is due in respect of certain of the Group's products. This matter is subject to an ongoing tax dispute to determine whether VAT is due and on what basis it would be calculated. The amount could be material and there is a risk it is not appropriately provided for or disclosed in the financial statements. Management judgement is required to determine the likely outcome of the ongoing tax dispute in relation to this matter. For further details refer to the Audit Committee Report (page 38); Accounting policies (pages 80 and 89); and Note 26 of the Consolidated Financial Statements (page 110)	We obtained and read the Group's correspondence with relevant tax authorities to understand the Group's position on this matter. We obtained and read the opinions of the Group's legal advisers on the likelihood of VAT in Germany being due, the basis for calculating any VAT, and the likely outcome of the ongoing tax dispute in relation to this matter. We discussed the above with management and its legal advisers, with support from our German tax specialists. Based on our experience of the Group and the betting and gaming industry, and after consideration of the correspondence referred to above and similar cases, we challenged the assumptions made by management. We assessed the appropriateness of amounts presented in the contingent liability disclosure in the financial statements and whether this disclosure was compliant with the requirements of IAS 37. **Scope of our procedures** We performed full scope audit procedures over all the Group's products that could be subject to VAT in Germany.	Management has performed sufficient, appropriate procedures to conclude on the likelihood of the Group's products being subject to VAT in Germany. We agreed with management's conclusions that whilst it is not considered probable the Group's products are subject to VAT in Germany, it is possible. An appropriate contingent liability disclosure has been made in the financial statements. No audit differences were identified during our procedures.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Legal and regulatory risk		
Betting and gaming is a highly regulated industry in which compliance with legislation and licensing requirements is critical to the continued operation of the business. The Group holds licences in a number of countries. The Group's cross border operations expose it to regulations across several jurisdictions. This regulation is developing on an ongoing basis and can often also be subject to interpretation. The Group is subject to various challenges and legal cases in Germany and Spain from local authorities or lottery operators, challenging the Group's marketing activities and its right to operate its businesses. Given the ongoing legal cases relating to the Group's operations in Germany and Spain, management judgement is required to determine the impact on the viability of the business. Judgement is also required in calculating the amount of any provisions related to these matters. For further details refer to the Audit Committee Report (page 39); Accounting policies (page 89); and Note 20 of the Consolidated Financial Statements (page 104)	We understood the Group's processes and related controls for the identification and mitigation of legal and regulatory risks and assessed whether the design and operation of the controls. We read key correspondence and legal opinions received by the Group on legal and regulatory matters, including the Group's external lawyers' assessments on the legality of the Group's continuing operations, to understand any impact on the financial statements and its viability. For legal and regulatory risks where there was a higher degree of management judgement, we involved our legal specialists to assist us in understanding and challenging management's judgements on the expected outcome of any legal cases. We inquired of management including in-house legal specialists about any known instances of material breaches in regulatory or licence compliance that needed to be disclosed or required provisions to be recorded. We assessed the appropriateness of the legal provisions recognised by the Group, aided by third party legal confirmations on those matters.	We agree with management that there is no material impact on the Group's ability to continue its operations for a period of at least 12 months from the date of approval of the Financial Statements. Sufficient legal provisions were recognised by the Group and the disclosures in the financial statements are appropriate.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Inappropriate revenue recognition		
Total operating performance ('TOP'), comprising revenue and other operating income, is one of the Group's key performance indicators and is material to the financial statements. Whilst the vast majority of the Group's Total operating performance involves little or no management judgement there is a risk that manual journal adjustments to revenue or other operating income could be recorded. There is also a risk that free bets are not appropriately classified as a deduction from revenue. For further details refer to the Audit Committee Report (page 38); Accounting policies (page 83); and Note 4 of the Consolidated Financial Statements (page 93).	We gained an understanding of and tested the processes and controls management has in place around the recording of revenue, including recording manual journal adjustments and classification of free bets. We gained an understanding of and tested, with support from our IT specialists, the key IT controls over the recording of revenue. We tested the appropriateness of journal entries impacting revenue with a focus on unusual journals such as those posted manually or with unexpected account pairings. We identified and verified the classification, quantum and completeness of free bets given by the Group through testing of relevant financial and IT controls and through journal entry testing. We performed correlation data analysis over the Group's revenue journals to identify how much of the revenue is converted to cash, to isolate and assess any non-standard revenue transactions, and to assess if all revenue transactions have been recorded. **Scope of our procedures** We performed audit procedures over revenue in all of the Group's full scope components.	Revenue was recognised in accordance with the Group's accounting policies and no matters in respect of inappropriate manual journals were identified.

OVERVIEW OF THE SCOPE OF OUR AUDIT

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

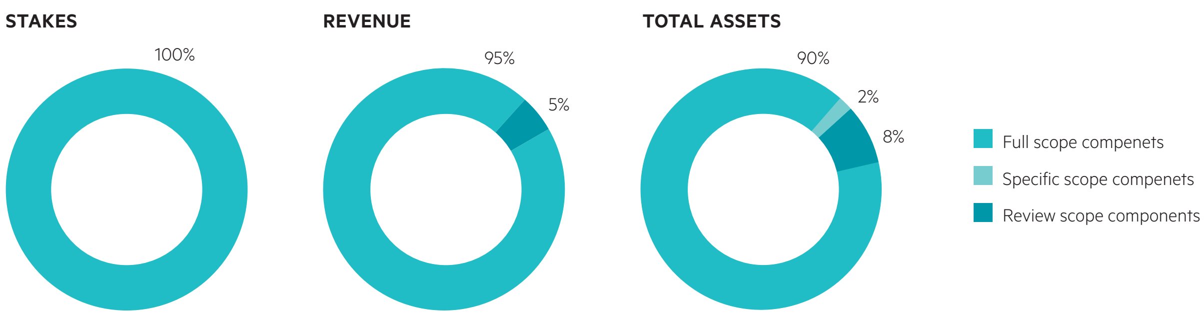
In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the 22 reporting components of the Group, we determined that five components covering activities within the United Kingdom and Germany, represented the principal business units within the Group.

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

The reporting components where we performed audit procedures accounted for 100% (2016: 100%) of the Group's stakes, 95% (2016: 94%) of the Group's revenue and 92% (2016: 94%) of the Group's total assets. For the current year, the full scope components contributed 100% (2016: 100%) of the Group's stakes, 95% (2016: 94%) of the Group's revenue and 90% (2016: 93%) of the Group's total assets. The specific scope component contributed 0% (2016: 0%) of the Group's stakes, 0% (2016: 0%) of the Group's revenue and 2% (2016: 1%) of the Group's total assets. The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts tested for the Group.

The remaining 17 components together represent nil% of the Group's stakes. For these components ('review scope components'), we performed other procedures, including analytical review, testing of consolidation journals and intercompany eliminations and foreign currency translation recalculations to respond to any potential risks of material misstatement to the Group financial statements.

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



Involvement with component teams
All audit work performed for the purposes of the audit was undertaken by the Group audit team.

OUR APPLICATION OF MATERIALITY

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

MATERIALITY

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

We determined materiality for the Group to be €1,206k (2016: €1,876k), which is 0.5% of stakes.

We used stakes as it is considered to be the primary area of focus of the Group's stakeholders. In the prior year and during our planning for the 2017 audit we used the Group's earnings before interest and tax ('EBIT') as our basis for materiality. Our view, which we have validated with the Audit Committee, is that the area of focus of the Group's shareholders has since developed and that stakes is more reflective of the underlying performance of the business.

We determined materiality for the Parent company to be €568k (2016: €423k), which is 1% (2016: 1%) of total assets.

PERFORMANCE MATERIALITY

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

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 75% (2016: 75%) of our planning materiality, namely €904k (2016: €1,407k). We have maintained performance materiality at this percentage reflecting the results of our testing of the Group's systems and processes and historical audit findings.

REPORTING THRESHOLD

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

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of €60k (2016: €94k), which is set at 5% of materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

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

OTHER INFORMATION

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

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

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

We have nothing to report in this regard.

OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

In the light of the knowledge and understanding of the Group and the Parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

RESPONSIBILITIES OF DIRECTORS

As explained more fully in the directors' responsibilities statement set out on page 59, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

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

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

Our approach was as follows:

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

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

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

OTHER MATTERS WE ARE REQUIRED TO ADDRESS

- Ernst & Young Germany was appointed by the company on 17 March 2003 to audit the financial statements for the year ending 31 December 2002 until 18 November 2014, when Ernst & Young UK was appointed to audit the 31 December 2014 year end and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments since ZEAL Network SE became a Public Interest Entity for Ernst & Young UK is 4 years (a combined total of 12 years for Ernst & Young Germany and Ernst & Young UK).
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent company and we remain independent of the Group and the Parent company in conducting the audit.
- The audit opinion is consistent with the additional report to the Audit Committee.

Cameron Cartmell
(Senior statutory auditor)
for and on behalf of Ernst & Young LLP
Statutory Auditor
London
21 March 2018

Notes:

1. The maintenance and integrity of the ZEAL Network SE website is the responsibility of the directors; the work carried out by the auditor does not involve consideration of these matters and, accordingly, the auditor accepts no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

CONSOLIDATED INCOME STATEMENT
FOR THE PERIOD 1 JANUARY TO 31 DECEMBER 2017

		2017	2016
in €k	Note		
Revenue	4	134,295	112,935
Other operating income	5	6,951	26,703
Total Operating Performance (TOP)		**141,246**	**139,638**
Personnel expenses	23	(28,630)	(26,705)
Other operating expenses	6	(85,758)	(70,405)
Marketing expenses		(19,131)	(14,830)
Direct costs of operations		(43,365)	(33,909)
Other costs of operations		(23,262)	(21,666)
Exchange rate differences		(422)	(1,304)
Amortisation/depreciation on intangible assets and property, plant and equipment		(1,255)	(2,166)
Gain on liquidation of subsidiary		–	238
Loss on acquisition	7.2	–	(1,340)
Result from operating activities (EBIT)		**25,181**	**37,956**
Finance income	8	385	390
Finance costs	8	(335)	(237)
Impairment of convertible loan	7.1	-	(1,598)
Results from financing and investing activities		**50**	**(1,445)**
Profit before income tax		**25,231**	**36,511**
Income tax expense	9	(8,053)	(10,560)
Profit attributable to the equity shareholders of the Company		**17,178**	**25,951**
Earnings Per share for profit attributable to ordinary equity holders of the Company		€	€
Basic and diluted Earnings Per Share (in €/share)	21	2.05	3.09

The above Consolidated Income Statement should be read in conjunction with the accompanying notes 1 to 30.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD 1 JANUARY TO 31 DECEMBER 2017

	2017	2016
in €k		
Profit for the year	**17,178**	**25,951**
Other comprehensive income		
Items that may be reclassified to profit or loss		
Changes in the fair value of available-for-sale financial assets	225	(227)
Exchange differences on translation of foreign operations	40	143
Other comprehensive income/(loss) for the year, net of tax	**265**	**(84)**
Total comprehensive income attributable to the equity shareholders of the Company	**17,443**	**25,867**

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes 1 to 30.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017

		2017	2016
ASSETS in €k	Note		
Non-current assets			
Property, plant and equipment	10	2,607	1,901
Intangible assets	11	510	802
Deferred tax assets	12	38	575
Other investments	13	3,041	1,198
Other assets and prepaid expenses		438	201
Total non-current assets		**6,634**	**4,677**
Current assets			
Trade and other receivables	14	1,803	755
Income tax receivables		474	9
Other current assets and prepaid expenses	15	13,025	12,835
Short-term loan	16	–	3,075
Financial assets	17	27,123	19,682
Cash and pledged cash	17	92,052	94,983
Total current assets		**134,477**	**131,339**
TOTAL ASSETS		**141,111**	**136,016**

EQUITY & LIABILITIES in €k	Note	**2017**	2016
Non-current liabilities			
Other liabilities	18	1,765	2,199
Total non-current liabilities		**1,765**	**2,199**
Current liabilities			
Trade payables		5,510	5,052
Other liabilities	18	23,098	22,545
Financial liabilities		106	123
Deferred income	19	2,105	2,251
Income tax liabilities		1,074	5,952
Provisions	20	837	336
Total current liabilities		**32,730**	**36,259**
Equity			
Subscribed capital	21	8,385	8,385
Share premium	21	21,578	21,578
Other reserves	21	(560)	(785)
Foreign currency translation reserve	21	183	143
Retained earnings	21	77,030	68,237
Total equity		**106,616**	**97,558**
TOTAL EQUITY & LIABILITIES		**141,111**	**136,016**

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes 1 to 30. These financial statements were approved by the Board of Directors on 21 March 2018 and were signed on its behalf by:

Dr. Helmut Becker
Member of Executive Board

Jonas Mattsson
Member of Executive Board

Susan Standiford
Member of Executive Board

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD 1 JANUARY TO 31 DECEMBER 2017

	2017	2016
in €k		
Profit from continuing operations before tax	25,231	36,511
Adjustments for		
Depreciation and amortisation of non-current assets	1,255	2,166
Net loss on sale of non-current assets	1	–
Finance income	(385)	(390)
Finance costs	335	237
Impairment of convertible loan	–	1,598
Gain on liquidation of subsidiary	–	(238)
Loss on acquisition	–	1,340
Acquisition of GGGL and Geo24, net of cash acquired	–	(623)
Other non-cash changes	298	234
Changes in		
Trade and other receivables	(1,048)	9,487
Other assets and prepaid expenses	(427)	(641)
Trade payables	458	39
Other liabilities	119	(980)
Financial liabilities	(17)	10
Deferred income	(146)	(1,726)
Provisions	501	(718)
Interest received	385	390
Interest paid	(335)	(237)
Income taxes paid	(12,819)	(12,718)
Cash flow from operating activities	**13,406**	**33,741**

in €k	**2017**	2016
Cash flow from investing activities		
Acquisition of intangible assets	(236)	(240)
Acquisition of property, plant and equipment	(1,436)	(460)
Proceeds from the sale of property, plant and equipment	4	–
Payments for acquisition of investment	(1,843)	(1,198)
Receipt on liquidation of subsidiary	–	238
Contributions to associated companies	–	(1,598)
Short-term loan	3,000	–
Net cash outflow from investing activities	**(511)**	**(3,258)**
Cash flow from financing activities		
Dividends paid to the Company's shareholders	(8,385)	(23,478)
Net cash outflow from financing activities	**(8,385)**	**(23,478)**
Net increase in cash, pledged cash and short-term financial assets	4,510	7,005
Cash, pledged cash and short-term financial assets at the beginning of the year	114,665	107,660
Cash and cash equivalents at the end of the financial year	**119,175**	**114,665**
Composition of cash and cash equivalents		
Cash and pledged cash	92,052	94,777
Short-term financial assets	27,123	12,883
Cash and cash equivalents at the end of the financial year	**119,175**	**107,660**

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes 1 to 30.

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

	Subscribed capital	Share premium	Other reserves	Retained earnings	Currency translation adjustments	**Total equity**
in €k						
Balance at 1 January 2016	**8,385**	**21,578**	**(558)**	**65,764**	**–**	**95,169**
Profit for the year	–	–	–	25,951	–	25,951
Other comprehensive income	–	–	(227)	–	143	(84)
Total comprehensive income for the year	**–**	**–**	**(227)**	**25,951**	**143**	**25,867**
Transactions with owners in their capacity as owners						
Dividends paid	–	–	–	(23,478)	–	(23,478)
As at 31 December 2016	**8,385**	**21,578**	**(785)**	**68,237**	**143**	**97,558**
Balance at 1 January 2017	**8,385**	**21,578**	**(785)**	**68,237**	**143**	**97,558**
Profit for the year	–	–	–	17,178	–	17,178
Other comprehensive income	–	–	225	–	40	265
Total comprehensive income for the year	**–**	**–**	**225**	**17,178**	**40**	**17,443**
Transactions with owners in their capacity as owners						
Dividends paid	–	–	–	(8,385)	–	(8,385)
As at 31 December 2017	**8,385**	**21,578**	**(560)**	**77,030**	**183**	**106,616**

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes 1 to 30.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

ZEAL Network SE ('the Company' or 'ZEAL Network') was founded in Germany in 1999. It subsequently transferred its registration to the UK in February 2014 under the Company Number SE000078. The Company's shares are listed in the Prime Standard segment of the Frankfurt Stock Exchange.

The consolidated financial statements of ZEAL Network SE (collectively 'ZEAL Group' or 'the Group') for the year ended 31 December 2017 were authorised for issue in accordance with a resolution of the Executive Board and subsequently forwarded to the Supervisory Board for examination and adoption on 21 March 2018.

The date of the statement of financial position is 31 December 2017. The financial year ended 31 December 2017 covers the period from 1 January 2017 to 31 December 2017.

2 ACCOUNTING POLICIES

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

2.1 BASIS OF PREPARATION

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

The financial statements are prepared on a going concern basis. The Directors have formed a judgement at the time of approving the financial statements that there is a reasonable expectation that ZEAL Group has adequate resources to continue in operation for the foreseeable future. This assessment is based on the fact that the Group held €92.1m in cash and €27.1m in short-term financial assets at the year-end (2016: €95.0m and €19.7m in cash and short-term deposits, respectively). As the Group expects to deliver revenue, positive cash inflows and profit growth in the years ahead, the Directors have adopted the going concern basis in preparing the Consolidated Financial Statements.

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

Under licence conditions and codes of practice published by the UK Gambling Commission in February 2015 (subsequently updated in April 2015), the financial statements must disclose the quantum of balances held in customer accounts representing funds not owned by the ZEAL Group. This information is included in note 17 to the Consolidated Financial Statements.

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

2.2 RECENT ACCOUNTING DEVELOPMENTS

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

The following standards, interpretations and amendments apply for the first time to the financial reporting period commending on or after 1 January 2017 but have had no material impact on the consolidated results of operations or financial position of the Group:

- Amendments to IAS 12, 'Income Taxes' – Recognition of Deferred Tax Assets for Unrealised Losses.
- Amendments to IAS 7, 'Statement of Cash Flows' – Disclosure Initiative.
- Annual improvement processes (AIP) 2014–2016 – IFRS 12, 'Disclosure of Interest in Other Entities'.

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

The following standards and revisions listed below will be effective for future accounting periods beginning on or after 1 January 2018:

- FRS 2, 'Classification and measurement of share-based payment transactions' is effective from 1 January 2018.
- Annual improvement processes (AIP) 2014–2016 to IFRS 1 'First-time Adoption of International Financial Reporting Standards' concerning deletion of short-term exemptions for first-time adopters is effective from 1 January 2018.
- IFRIC 22, 'Foreign Currency Transactions and Advance Consideration' is effective from 1 January 2018.
- IFRIC Interpretation 23, 'Uncertainty over Income Tax Treatments' is effective from 1 January 2019.

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

- IFRS 15, 'Revenue from contracts with customers'

  Nature of change
  IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under IAS 18 and IAS 11. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Income from financial instruments will continue to be recognised under IAS 39 or IFRS 9.

Assessment
The Group has adopted the new standard on the required effective date. During 2017, the Directors performed an assessment of the impact that the adoption of IFRS 15 will have on the Group's Consolidated Financial Statements.

Revenue generated from secondary lottery betting and instant win games
For secondary lottery betting and instant win game products IFRS 15 will not have any impact on the recognition or timing of the Group's revenue recognition. All material revenue streams are accounted for under IAS 39 (to be replaced by IFRS 9) rather than IFRS 15.

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

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

IFRS 15 also provides presentation and disclosure requirements, which are more detailed than under IAS 18 and IAS 11. The presentation requirements represent a change from current practice and increase the volume of potential disclosures required in financial statements. The Group has assessed that with the exception of additional disclosures on first time application, there will be no significant changes in the level of disclosure following the adoption of this standard.

- IFRS 9, 'Financial Instruments'

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

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

  Assessment
  The Group has adopted the new standard on the required effective date. During 2017, the Directors performed an assessment of all three aspects of IFRS 9.

  The impact on the Group is broadly split into three areas:

  1. Classification and measurement

  The Group accounts for one of its Other Investments at historical cost under IAS 39. On adoption of IFRS 9, this investment will be measured at fair value in accordance with IFRS 13. As this investment is not held for trading, the Group is permitted to elect irrevocably to present gains and losses on Other Investments in Other Comprehensive Income (OCI).

  At 31 December 2017, the Group had €26.0m (2016: €17.5m) of available-for-sale financial assets, which are not held for trading. On adoption of IFRS 9, the Group plans to elect irrevocably to present gains and losses on these assets in OCI. Presently under IAS 39, all gains and losses on these assets are 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. If the fair value of the investment were to decline, this decrease would be recorded as a reduction in equity through OCI.

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

  2. Expected credit losses

  IFRS 9 requires the Group to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Group expects to apply a combination of the simplified and general approach and record lifetime expected losses on all of its financial assets. Based on the assessments undertaken, the Group does not expect an increase in the loss allowance for any financial assets held at amortised cost.

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

  The new standard also introduces expanded disclosure requirements and changes in presentation. These changes will alter the nature and extent of the Group's disclosures about its financial instruments, particularly in the year of the adoption of the new standard. Disclosure requirements on transition include:

- The original measurement category and carrying amount determined in accordance with IAS 39.
- The new measurement category and carrying amount determined in accordance with IFRS 9.
- Qualitative information to provide an understanding of how the classification requirements in IFRS 9 were applied to those financial assets whose classification has changed as a result of applying IFRS 9.

- IFRS 16, 'Leases'

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

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

  Preliminary Assessment
  The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group had non-cancellable operating lease commitments of €12.3m (2016: €14.6m), disclosed in note 26 to the Consolidated

Financial Statements. On initial adoption, it is expected that the majority of rental and leasing obligations currently disclosed in note 26 will be disclosed in the Statement of Financial Position. Some of the commitments may be covered by the exception for short-term and low-value leases. A full assessment will be performed during 2018.

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

2.3 SIGNIFICANT JUDGEMENTS AND ESTIMATES

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

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

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

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

The Group performs impairment reviews on its available-for-sale assets on 31 December each year. There is no objective evidence that a financial asset or group of financial assets is impaired. No impairment charges were therefore recorded in the Consolidated Income Statement for the year ended 31 December 2017.

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

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

Value added tax (VAT)
Due to the changes in German VAT legislation introduced on 1 January 2015, there is significant uncertainty around whether certain services provided by the myLotto24 sub group are subject to VAT and the tax base on which any VAT payable would be calculated. At this stage, the Directors of the Group consider that the likelihood of the outflow of economic benefits is not probable and, as such, no provision has been recorded in the Consolidated Financial Statements. Based on a thorough legal assessment, which included a review of the existing legal framework and case law, the Directors remain confident that the outcome will be favourable for the Group. The Group will continue to closely monitor any changes in this area and ensure that the accounting for VAT continues to comply with governing legislation. The Directors have reported a contingent liability on this matter and a separate disclosure is included in note 26 to the consolidated financial statements. In accordance with IAS 37 'Provisions, contingent assets and contingent liabilities', the Directors have estimated the potential financial impact (if any) and the associated timings in note 26 to the Consolidated Financial Statements.

Austrian Gaming Duty

In January 2011, duty became payable on a point of consumption basis in Austria. There is judgement over whether the correct Austrian Gaming Duty should be payable based on 2% of stakes (or 4% of stakes from 1 January 2017), which is the rate for betting or 40% of Gross Gaming Revenue, which is the rate for lotteries.

The Directors consider the most likely outcome is that the duty will be due based on stakes and has accrued on this basis. Amounts are accrued based on advice from legal professionals, management's interpretation of Gaming Duty laws and the likelihood of settlement.

Tax audits

During 2017, the German tax office commenced a tax audit related to the tax years 2012 to 2014. Management has provided the tax office with all available information and there have been no further communications. The Directors are satisfied that no future obligation exists and no related cash outflows or provisions are anticipated.

2.4 BASIS OF CONSOLIDATION

The Consolidated Financial Statements include the financial information of the subsidiary, associate and joint venture interests owned by the Company:

(I) Subsidiaries

Initial consolidation of subsidiary companies

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

The equity interests of all subsidiary companies included in the Consolidated Financial Statements are 100% owned by ZEAL Network SE with the exception of the Company's interests in myLotto24 Limited and its subsidiary and associated companies (full details are set out within the Subsidiaries, Associates and Joint Ventures section (note 22 to the Consolidated Financial Statements).

ZEAL Network holds 40% of the voting shares in myLotto24 Limited. myLotto24 Limited is the parent of the myLotto24 sub group in which it itself holds the majority of the voting shares except for Tipp24 Services Limited in which it holds 40% of the voting shares. Fondation enfance sans frontières holds the remaining 60% of Tipp24 Services Limited.

On 30 April 2009, ZEAL Network sold 60% of the voting shares in both myLotto24 Limited and Tipp24 Services Limited to a Swiss foundation set up by ZEAL Network in the form of preference shares stripped of their main economic rights. As a consequence, ZEAL Network owns no more than half the voting rights in myLotto24 Limited, while myLotto24 Limited owns no more than half the voting rights in Tipp24 Services Limited. The affiliate companies and their respective subsidiaries are consolidated in the ZEAL Network SE Group financial statements because the relevant criteria of IFRS 10 are met:

- ZEAL Network has a right to repurchase the majority of voting rights for an amount of £30.0k for each company. ZEAL Network has veto rights with regard to changes in the articles of myLotto24 and Tipp24 Services.
- The owner of the majority of voting rights receives a preliminary annual dividend of up to £15.0k for each company. In the case of liquidation, the owner of the majority of voting rights is entitled to receive previously agreed liquidation proceeds of £30k. ZEAL Network alone is entitled to the entire remaining profits and any remaining liquidation proceeds.

The annual dividend is therefore treated as an expense in the Consolidated Financial Statements of ZEAL Group and the results of all entities within the myLotto24 sub group are fully consolidated into the ZEAL Group Consolidated Financial Statements. As a result of the substance of the relationship, no non-controlling interest is recorded.

Subsequent disposal of subsidiary companies

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

Transactions, balances and ILS vehicles not included in the consolidated results

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

The Group manages its risk exposure to large jackpots through the use of an ILS vehicle set up specifically to provide insurance cover to the myLotto24 sub group. The ILS vehicle is not consolidated as the relevant criteria around control under IFRS 10 are not met. Further details are available in the Risk Management section of the Strategic Report.

(II) Associates and joint ventures

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

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

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

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

Previously, the Group accounted for its relationships with Geonomics Global Games Limited (GGGL) and Geo24 UK Limited (Geo24) as an investment in an associate and an investment in a joint venture respectively. On 30 March 2016, the Group acquired the remaining issued shares of GGGL leading to full ownership of both GGGL and Geo24. As such, these companies are now accounted for as wholly owned subsidiaries. Further information in respect of the acquisition of these companies is included in note 7 to the Consolidated Financial Statements.

2.5 CLASSIFICATION OF CURRENT AND NON-CURRENT ASSETS AND LIABILITIES

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

An asset is a current asset when:

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

All other assets are classified as non-current.

A liability is current when:

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

All other liabilities are classified as non-current.

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

2.6 REVENUE

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

(I) Secondary lottery revenue
Revenue that myLotto24 Limited generates as the organiser of secondary lotteries, where myLotto24 Limited bears the bookmaking risk, is recognised at the moment the draw results of the respective lotteries are announced. Stakes received as of the Statement of Financial Position date, but which are intended for games whose draw results are not available until after the Statement of Financial Position date, are deferred.

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

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

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

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

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

(II) Revenue generated from Instant Win Games
Revenue that myLotto24 Limited generates from the sale of Instant Win Game products is recognised in the same way as revenue generated on secondary lottery activities. Revenue on Instant Win Games is recorded at the point which the game is purchased. The quantum of revenue recorded represents the amount of bets placed by the customers less amounts won.

(III) Revenue generated from commissions and fees
Revenue also results from commissions and fees, which the Group receives for placing bets on behalf of customers. Revenue is recognised when the bets have been made, the lottery ticket information passed on to the lottery organiser and confirmation of receipt of the information has been received. Where advanced payments are received from customers for subscriptions, payments received are deferred and the related revenue is only recognised when the lottery ticket information has been passed on to the lottery organiser and confirmation of receipt of the information has been obtained (pursuant to IAS 18, 'Revenue').

(IV) Other revenue
The Group receives revenue from servicing lottery operators. Insofar as this revenue is related to end consumer bets, it is recognised when the bets are made.

2.7 OTHER INCOME

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

(II) Other operating income
Other operating income comprises the following:

- the fair value of consideration received or receivable from winning tickets purchased by myLotto24 Limited on Spanish EuroMillions draws;
- the fair value of consideration received or receivable from special insurance policies taken out to hedge against the risk of special draw pay-outs;
- the fair value of consideration received or receivable from the use of an ILS vehicle taken out to provide cover against the risk of large pay-outs;
- the release of dormant customer balances to the Consolidated Income Statement. Funds deposited by the Group's customers are classified as other liabilities in the financial statements. After a period of 24 months from the date of last activity on customer accounts, the related customer liabilities are classified as dormant. If attempts to contact the customer to refund deposits held on their behalf are unsuccessful (at least 26 months from last activity), these customer liabilities are released to other operating income. This is consistent with the terms and conditions included on the Group's websites.

2.8 INCOME TAXES

(I) Current and deferred taxes

The tax expense for the year comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case it is recognised in other comprehensive income or directly in equity, respectively.

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

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

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

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

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

(II) Withholding and similar taxes

Withholding taxes suffered relate specifically to amounts withheld from gross pay-outs on winning tickets purchased from the Spanish National Lottery (SELAE) by myLotto24 Limited. As a result of lottery tax legislation brought in by the Spanish Government in 2013, SELAE is required to withhold 20% of gross winnings and transfer this directly to the Spanish Tax Authorities on behalf of the winner. A receivable for taxes withheld at source will be recorded only when there is persuasive evidence to confirm that a refund will be received.

2.9 OPERATING EXPENSES

Operating expenses are recognised when goods and services have been provided to the Group. Any goods or services that have been provided during the period where no invoice has been received from the supplier are accrued for. Where it is probable that future economic benefits will flow as a result of a good or service provided and the cost can be reliably measured, the costs are capitalised and amortised over the duration of the expected economic benefit.

2.10 FOREIGN EXCHANGE

(I) Foreign exchange translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The Consolidated Financial Statements are presented in Euros, which is the Group's presentational currency. The average exchange rates (calculated based on the average of the exchange rates during the financial year) and the closing exchange rates have been taken from the publicly available European Central Bank rates. Translation differences on non-monetary assets such as equity investments classified as available for sale assets are included in other comprehensive income.

(II) Transactions and balances

The financial statements for each Group company have been prepared on the basis that transactions in foreign currencies are recorded in their functional currency at the rate of exchange ruling at the date of the transaction. Monetary items denominated in foreign currencies are retranslated at the rate of exchange ruling at the Statement of Financial Position date. The resultant translation differences are included in operating profit in the income statement other than those arising on financial assets and liabilities, which are recorded within financial income or expense, or foreign exchange on tax balances which are recorded in the income tax expense line item.

2.11 INTANGIBLE ASSETS

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

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

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

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

(I) Computer software and licences

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

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

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

(II) Research and development

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

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

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

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

2.12 PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

(I) Assets in the course of construction

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

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

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

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

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

2.13 IMPAIRMENT

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

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

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

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

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

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

2.14 OTHER INVESTMENTS

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

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

2.15 LEASING

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

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

Finance leases
ZEAL Group does not have any finance leases.

2.16 BUSINESS COMBINATIONS

(I) Subsidiaries
The acquisition method is used to account for business combinations.

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

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

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

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

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

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

(II) Associates and joint ventures

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

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

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

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

2.17 FINANCIAL ASSETS AND LIABILITIES

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

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

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

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

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

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

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

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

Derivative financial assets and financial liabilities

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

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

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

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

(II) Loans and receivables

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

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

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

a. Trade receivables

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

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

b. Cash, cash equivalents and pledged cash

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

(III) Available-for-sale investments

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

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

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

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

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

2.18 EQUITY AND DISTRIBUTIONS

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

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

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

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

2.19 PROVISIONS

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

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

2.20 CONTINGENT LIABILITIES

Contingent liabilities are not recognised in the Consolidated Financial Statements. Contingent liabilities are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Details of contingent liabilities recorded at 31 December 2017 are included in note 26 to the Consolidated Financial Statements.

2.21 EMPLOYEE BENEFITS

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

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

(II) Termination benefits

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

(III) Defined contribution pension plans

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

(IV) Cash-settled share-based payments

For cash-settled share-based payment schemes, a liability is recognised based on the fair value of the payment award at Statement of Financial Position date. The fair value of the phantom share options granted is recognised over the vesting period to reflect the value of the employee services received. The charge relating to grants to employees is recognised as an expense in the income statement.

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

3 SEGMENT REPORTING

SEGMENTAL DISCLOSURE PRESENTATION

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

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

The Group's operating segment names have changed to Lottery Betting, Lottovate and ZEAL Ventures. This is consistent with the internal reporting provided to the chief operating decision maker. There has been no change in the results of the individual segments or comparative figures. We have described the composition of the segments in more detail below:

Lottery Betting Segment (formerly known as Business-to-Consumer)

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

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

Lottovate Segment (formerly known as Business-to-Business/ Business-to-Government)

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

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

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

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

ZEAL Ventures

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

Business unit segment reporting

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

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

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

Business unit segment reporting

2016	Lottery Betting	Lottovate	Business unit total	Normalisation adjustments	Other adjustments	Statutory
in €k	A	B	A+B=C	D	E	C+D+E
Revenue	138,594	6,686	145,280	(32,580)	235	112,935
Other operating income	2,626	308	2,934	19,716	4,053	26,703
Total Operating Performance	**141,220**	**6,994**	**148,214**	**(12,864)**	**4,288**	**139,638**
EBITDA	**64,545**	**(9,782)**	**54,763**	**(12,864)**	**(1,777)**	**40,122**
Depreciation/amortisation	(1,554)	(612)	(2,166)	–	–	(2,166)
EBIT	**62,991**	**(10,394)**	**52,597**	**(12,864)**	**(1,777)**	**37,956**
Financial result	–	–	–	–	(1,445)	(1,445)
EBT	**–**	**–**	**52,597**	**(12,864)**	**(3,222)**	**36,511**
Income tax	–	–	–	–	(10,560)	(10,560)
Net profit/loss	**–**	**–**	**52,597**	**(12,864)**	**(13,782)**	**25,951**

- 'Other' adjustments include:
  - Other operating income of €3,397k related to the release of dormant customer accounts.
  - A charge associated with the acquisition of GGGL and Geo24 amounting to approximately €1,340k recorded within EBITDA and EBIT described in detail in note 7 to the Consolidated Financial Statements.
  - An impairment charge on amounts drawn by GGGL on the convertible loan facility of €1,598k recorded within financial result (described in the business review section above). The remaining gain of €153k included within this category relates to net income receivable accrued in the normal course of business.
  - Other items impacting revenue and other operating income relate to external revenue and other operating income generated by Schumann e.K (which does not form part of either the Lottery Betting or Lottovate segments) and €390k finance income and €237k of finance costs.

4 REVENUE

in €k	2017	2016
Stakes	241,306	243,765
Prizes	(132,125)	(153,282)
Ticket Fees	18,095	16,530
Commission and Other Revenue	7,019	5,922
Revenue	**134,295**	**112,935**

Revenue consists of secondary lottery betting and instant win games products. These products are classified as derivative financial instruments and are disclosed in the Consolidated Income Statement net of VAT, free bets and winnings pay-outs.

Revenue is also recognised from ticket fees and commissions, which the Group receives for placing bets on behalf of customers.

5 OTHER OPERATING INCOME

in €k	2017	2016
Income from hedging transactions	5,062	1,910
Release of dormant customer accounts	669	3,397
Income from special insurance	–	20,000
Other	1,220	1,396
Other operating income	**6,951**	**26,703**

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

The release of dormant customer accounts of €669k (2016: €3,397k) relates to customer account balances where no activity had been recorded at least in the last 26 months and all procedures have been completed to contact the customer. The release of these account balances is in full compliance with publicly available terms and conditions included on the Group's websites and significant diligence was performed prior to the authorisation of this release.

In 2016, the income generated from special insurance relates to the exceptional prize pay-out of €37,000k in May 2016. The special insurance held by myLotto24 was independent of the ILS hedging structure.

6 OTHER OPERATING EXPENSES

in €k	**2017**	2016
Marketing expenses	19,131	14,830
Direct costs of operations	43,365	33,909
Other costs of operations	23,262	21,666
Other operating expenses	**85,758**	**70,405**

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

- The increase in marketing expenses of €4,301k. The increased investment in marketing is consistent with our strategy to drive customer acquisition and re-activate the dormant proportion of the Lottery Betting customer base.
- The increase in direct costs of operations of €9,456k, which is due to the €10,589k increase in physical hedged ticket costs due to a higher number of fully hedged draws compared to the prior period. This has been offset by a reduction in jackpot insurance costs of €1,214k.
- The increase in other costs of operation of €1,596k, which is primarily due to increased consultancy expenses of €855k. This is associated with the Group's international expansion strategy in both the Lottery Betting and Lottovate segment along with the launch of new products: Cash4Life, US Powerball and US Mega Millions.
- The remaining movement is attributable other movements that are individually immaterial.
- Other costs of operations include fees charged by the auditor, Ernst & Young, LLP and its affiliates are summarised in the table below.

Auditor's remuneration	**2017**	2016
in €k		
Audit of the financial report of the Group and any other entity in the consolidated group	507	509
Tax advisory	–	251
Tax compliance	–	20
Other non-audit services	4	19
Total auditor remuneration	**511**	**799**

7 ACQUISITION OF GEONOMICS GLOBAL GAMES LIMITED (GGGL) AND GEO24 UK LIMITED (GEO24)

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

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

In July 2015, Tipp24 Investment 1 Limited entered into an agreement with GGGL to provide a convertible loan facility amounting to £2,600k (with a further £400k available if certain targets were met) to fund the working capital of GGGL.

The first draw-downs totalling £1,250k occurred in January 2016 and February 2016. The Group provided against these amounts in full on the date of each draw down as the Group believed that there was significant uncertainty over whether the funds would be repaid. All draw-downs were effected well in advance of the completion date and, as such, did not form part of the cost of acquisition of GGGL and Geo24. A charge of €1,598k relating to the amounts drawn on the facility was separately recorded within the Consolidated Income Statement in 2016 as an impairment of convertible loan.

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

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

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

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

8 FINANCE INCOME AND COSTS

	2017	2016
in €k		
Finance income		
Other interest and similar income	2	52
Income from other long-term securities and loans	383	338
	385	**390**
Finance costs		
Interest expense and similar charges	(335)	(237)
	(335)	**(237)**

9 INCOME TAX EXPENSE

Income taxes paid or payable as well as deferred taxes and withholding taxes are recognised within the income taxes line item. The blended corporate income tax rate in the UK amounts to 19.25% (2016: 20.0%).

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

Deferred taxes under IAS 12 are calculated at the average tax rate at the time the differences are expected to reverse. For the calculation of deferred taxes, the total tax rate for domestic UK tax registered companies amounted to 17% (2016: 17%). In the case of foreign companies, the respective country-specific regulations, enacted and substantively enacted tax rates were used to calculate deferred taxes.

Income statement	2017	2016
in €k		
Current taxation:		
Charge for the year	8,656	11,138
Adjustments in respect of prior years	(1,140)	(784)
Total current taxation	**7,516**	**10,354**
Deferred taxation:		
Charge for the year	150	206
Adjustments in respect of prior years	387	–
Total deferred taxation	**537**	**206**
Total taxation expense (income statement)	**8,053**	**10,560**

Tax rate reconciliation	2017	2016
in €k		
Profit before taxation	**25,231**	**36,511**
Expected tax charge at standard UK rate of 19.25% (2016: 20.0%)	4,857	7,302
Exempt income	–	(33)
Other non-deductible expenses:	41	
Adjustments in foreign tax rates	292	233
Adjustments in respect of prior years	(753)	(104)
Tax loss utilisation	(128)	(305)
Unrecognised tax losses carried forward	3,946	4,158
Foreign exchange	(202)	–
Other tax items	–	(757)
Total taxation expense	**8,053**	**10,560**

A tax expense of €3,818k (2016: €3,853k) has been incurred during 2017 and is related to tax losses carried forward for which no deferred tax asset is recognised. This is partially offset by tax losses utilised during the year.

Included within other tax items for the year ended 31 December 2016 is a credit of €680k relating to the partial release of a provision recorded at 31 December 2015, concerning a tax audit of business years 2008 to 2011. This audit was ongoing at 31 December 2015 and the provision of €3,000k recorded was the Directors' best estimate of the outflow of economic benefits at that time. During 2016, the case was settled and an amount of €2,320k was paid to the relevant tax authority leading to the release of the remaining provision. There are no similar items for the year ended 31 December 2017.

10 PROPERTY, PLANT AND EQUIPMENT

Cost	Office equipment	Hardware	Office equipment under construction	Total
in €k				
Balance as at 1 January 2016	**3,463**	**4,606**	**11**	**8,080**
Additions	112	329	11	452
Transfer between classes	18	–	(18)	–
Disposals	–	(120)	–	(120)
Balance as at 31 December 2016	**3,593**	**4,815**	**4**	**8,412**
Additions	842	594	–	1,436
Disposals	–	(4)	–	(4)
Balance as at 31 December 2017	**4,435**	**5,405**	**4**	**9,844**

Accumulated depreciation	Office equipment	Hardware	Office equipment under construction	Total
in €k				
Accumulated depreciation as at 1 January 2016	**(1,656)**	**(4,200)**	**–**	**(5,856)**
Provided during the year	(459)	(324)	–	(783)
Disposals	5	123	–	128
Accumulated depreciation as at 31 December 2016	**(2,110)**	**(4,401)**	**–**	**(6,511)**
Provided during the year	(405)	(322)	–	(727)
Disposals	–	1	–	1
Accumulated depreciation as at 31 December 2017	**(2,515)**	**(4,722)**	**–**	**(7,237)**

Book value	Office equipment	Hardware	Office equipment under construction	Total
in €k				
As at 31 December 2016	**1,483**	**414**	**4**	**1,901**
As at 31 December 2017	**1,920**	**683**	**4**	**2,607**

There are no assets held under finance leases (2016: none).

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

11 INTANGIBLE ASSETS

Cost	Software	Other software	Licences	Total
in €k				
Balance as at 1 January 2016	**23,792**	**8,281**	**184**	**32,257**
Additions	–	240	–	240
Disposals	–	(755)	–	(755)
Balance as at 31 December 2016	**23,792**	**7,766**	**184**	**31,742**
Additions	–	236	–	236
Disposals	–	–	–	–
Balance as at 31 December 2017	**23,792**	**8,002**	**184**	**31,978**

Accumulated amortisation	Software	Other software	Licences	Total
in €k				
Accumulated amortisation as at 1 January 2016	**(23,392)**	**(6,870)**	**(50)**	**(30,312)**
Provided during the year	(400)	(965)	(18)	(1,383)
Disposals	–	755	–	755
Accumulated amortisation as at 31 December 2016	**(23,792)**	**(7,080)**	**(68)**	**(30,940)**
Provided during the year	–	(510)	(18)	(528)
Disposals	–	–	–	–
Accumulated amortisation as at 31 December 2017	**(23,792)**	**(7,590)**	**(86)**	**(31,468)**

Book value	Software	Other software	Licences	Total
in €k				
As at 31 December 2016	**–**	**686**	**116**	**802**
As at 31 December 2017	**–**	**412**	**98**	**510**

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

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

12 DEFERRED TAXATION

Deferred taxation movement schedule	2017	2016
in €k		
At 1 January	**575**	**781**
Charged to income statement	(537)	(206)
At 31 December	**38**	**575**

Deferred tax assets	Fixed asset allowances	Other temporary differences	Total
in €k			
At 1 January 2016	**435**	**346**	**781**
Charged to income statement	(20)	(186)	(206)
At 1 January 2017	**415**	**160**	**575**
Charged to income statement	(377)	(160)	(537)
At 31 December 2017	**38**	**–**	**38**

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

Of the deferred tax assets carried by the Group, an amount of €nil (2016: €nil) refers to tax losses carried forward, and an amount of €38k (2016: €575k) to temporary differences.

Total tax losses carried forward amount to €83,656k as of 31 December 2017 (2016: €64,827k). The tax losses predominately arose in the UK, Germany and Spain. The tax losses do not expire. Deferred tax assets have not been recognised in respect of these losses as there is currently uncertainty as to whether the related entities will generate sufficient taxable profit in the future against which the losses could reverse.

At 31 December 2017, there were no recognised or unrecognised deferred tax liabilities (2016: €nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, associates or joint ventures. Management has determined that undistributed profits of its subsidiaries, joint ventures or associates will not be distributed in the foreseeable future.

13 OTHER INVESTMENTS

in €k	2017	2016
Balance as at 1 January	**1,198**	**–**
Additions	1,843	1,198
Impairment	–	–
Balance as at 31 December	**3,041**	**1,198**

On 1 May 2017, ZEAL Network SE 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-life-time experiences and exclusive merchandise in support of critical causes. Omaze already has significant traction in the US market. ZEAL received preferred shares representing a 2.50% interest, a Board observer seat and various rights to protect and extend its shareholding. The investment of €1,843k in Omaze Inc. is held at fair value.

The Group continues to hold at historic cost a 10% interest in FPL 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.

14 TRADE AND OTHER RECEIVABLES

At 31 December 2017, trade and other receivables comprised trade receivables of €1,803k (2016: €755k). The increase in the balance is associated with the launch of betting on major US lotteries, Powerball and Mega Millions. There are no items within the trade receivable balance which are considered past due but not impaired.

15 OTHER CURRENT ASSETS AND PREPAID EXPENSES

in €k	2017	2016
Receivables from lottery companies, payment systems and players	6,948	4,551
Provision for doubtful debt	(1,964)	(395)
Security retainers	152	54
Receivables from gaming operations	**5,136**	**4,210**
Other debtors	1,677	931
Prepayments and accrued income	5,818	5,067
VAT receivable	394	1,754
Payroll taxes and social security receivable	–	846
Receivables from associated undertakings	–	27
Other receivables	**7,889**	**8,625**
Other current and prepaid expenses	**13,025**	**12,835**

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

At 31 December 2017, an amount of €1,964k (2016: €395k) was provided against player receivables where the initial direct debit transaction failed. The increase in the provision is due to the Group providing against all failed direct debit balances in 2017.

Whilst the Group continues to seek payment from each customer for all outstanding balances, the Directors have concluded that non-recovery of these amounts is more likely than not and have therefore recorded this provision. Other than the provision recorded above, none of the other receivable balances has been impaired.

16 SHORT-TERM LOANS

The short-term loan balance of €3,075k at 31 December 2016, including interest incurred was repaid in full during 2017. The loan related to an amount advanced to a third party as part of a pre-existing platform separation agreement and held an interest rate of 10% per annum.

17 CASH AND SHORT-TERM FINANCIAL ASSETS

	2017	2016
in €k		
Bank balances	89,041	94,710
Cash on hand	5	5
Pledged cash	3,006	268
Cash and pledged cash	**92,052**	**94,983**
Short-term financial assets	27,123	19,682
Cash and cash equivalents	**119,175**	**114,665**

Bank balances mainly comprise term deposits on short-term call and with variable interest rates held at various major European banks. At 31 December 2017, ZEAL held available-for-sale short-term financial assets amounting to €25,949k (2016: €17,490k). These deposits comprised fixed-income funds and are broadly spread and of high quality. A change in equity of a €225k gain (2016: loss of €227k) was recognised after consideration of deferred taxes.

For the Group's short-term financial assets management assesses if there is objective evidence of a significant or prolonged decline in fair value to determine if any impairment is required. There is no objective evidence that a financial asset or group of financial assets is impaired. No impairment charges were therefore recorded in the Consolidated Income Statement for the year ended 31 December 2017 (2016: €nil).

The Group also recorded financial assets classified as held-to-maturity of €1,174k as of the Statement of Financial Position date (2016: €2,192k). The available-for-sale short-term financial assets and held-to-maturity financial assets are included as 'short-term financial assets' above.

Included within the bank balances of €89,041k (2016: €94,710k) is an amount of €12,001k (2016: €12,222k) to cover customer liabilities.

18 OTHER LIABILITIES

Current	2017	2016
in €k		
Accrued liabilities	6,727	8,032
Accrued liabilities	**6,727**	**8,032**
Liabilities to players and game brokers	12,293	12,539
Liabilities from gaming duty	163	124
Liabilities from gaming operations	**12,456**	**12,663**
Employee benefits	**1,038**	**210**
VAT	2,589	1,333
Payroll related taxes and social security payable	288	307
Tax and social security payable	**2,877**	**1,640**
Total other liabilities – current	**23,098**	**22,545**

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

Non-current	2017	2016
in €k		
Accrued rent and dilapidations	1,535	1,514
Employee benefits	195	685
Other non-current liabilities	35	–
Total other liabilities – non-current	**1,765**	**2,199**

Employee benefits

The Group operates a long-term incentive plan arrangement for certain employees. Further details have been disclosed in note 24 to the Consolidated Financial Statements.

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

19 DEFERRED INCOME

Deferred income of €2,105k (2016: €2,251k) relates to payments for gaming orders and stakes received prior to 31 December 2017. In accordance with the Group's accounting policies, revenue can only be recognised on these stakes on the date of the respective draw. The Directors expect that all deferred revenue will be released to the Consolidated Income Statement during 2018.

20 PROVISIONS

Current	Opening balance 01/01/2017	Utilisation/release	Additions	**Closing balance 31/12/2017**
in €k				
Provisions for litigation	336	–	501	837
Total	**336**	**–**	**501**	**837**

Provisions for litigation

Provisions for litigation amounting to €837k at 31 December 2017 (2016: €336k) represent management's best estimate of the probable eventual cash outflow that will result from resolution of ongoing legal cases at 31 December 2017. Individual provisions included in provisions for litigation relate to cases that have been in progress for a number of years. It is difficult to predict the timing of any cash outflow that might result from cases awarded against the Group. As such, provisions for litigation have been classified as current liabilities as there is no certainty that any judgement against the Group (leading to an outflow of cash) would take place in annual periods commencing after 2018.

21 EQUITY

21.1 SHARE CAPITAL

The Company's share capital consists of 8,385,088 ordinary shares issued and fully paid (2016: 8,385,088). Shares have no par value. Each share has the right to dividends and there are no preference shares or restrictions.

21.2 AUTHORISED CAPITAL

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

21.3 SHARE PREMIUM

The balance on the share premium account represents the amounts received in excess of the nominal amount of the ordinary and preference shares. Share premium amounted to €21,578k at 31 December 2017 (2016: €21,578k).

21.4 EARNINGS PER SHARE

Earnings Per Share (basic and diluted) was €2.05 (2016: €3.09) per share for the year ended 31 December 2017. The weighted average number of shares in issue remained equal during 2016 and 2017 at 8,385,088.

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

Diluted Earnings Per Share are calculated by dividing loss or profit for the year attributable to ordinary equity holders of the parent company by the weighted average number of ordinary shares outstanding during the year (increased to account for the diluting effects from stock options, warrant agreements or any other plans in place at the Statement of Financial Position date, which may lead to the issuance of an additional number of shares in the future). In fiscal year 2017, there was no dilutive effect as there were no such programs (2016: no dilutive effect).

21.5 OTHER RESERVES

Other reserves amount to (€560k) (2016: (€785k)) and represent cumulative gains and losses (including any related foreign exchange movements) arising from changes in the fair value of available-for-sale financial assets. On disposal or impairment of available-for-sale assets, any gains or losses in other comprehensive income are reclassified to the income statement.

21.6 FOREIGN CURRENCY TRANSLATION RESERVE

The foreign currency translation reserve records amounts to €183k (2016: €143k) and relates to exchange differences arising from the translation of the financial statements of foreign operations.

21.7 RETAINED EARNINGS

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

22 SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

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

Name and registered office	Country	Principal activities	Nature of relationship with ZEAL Network	% effective interest	
				2017	2016
myLotto24 Limited [1] Suite 1, 3rd Floor 11–12 St. James's Square, London, SW1Y 4LB	UK	Bookmaker	Subsidiary	40	40
Tipp24 Services Limited 49 Clerkenwell Green London EC1R 0EB	UK	Lottery	Subsidiary	16	16
Tipp24 Deutschland GmbH [1] Kurze Muehren 1 20095 Hamburg	Germany	Lottery	Subsidiary	100	100
Lottovate Deutschland GmbH Kurze Muehren 1 20095 Hamburg	Germany	Lottery	Subsidiary	100	100
Ventura 24 S.L. [1] Leganitos 47 28013 Madrid	Spain	Lottery	Subsidiary	100	100
Ventura24 Games S.A. [1] Leganitos 47 28013 Madrid	Spain	Lottery	Subsidiary	100	100
Smartgames Technologies Limited Suite 1, 3rd Floor 11–12 St. James's Square, London, SW1Y 4LB	UK	Technology services	Subsidiary	40	40
Lottovate Limited [1] 5th Floor One New Change, London, EC4M 9AF	UK	Lottovate business	Subsidiary	100	100
ZEAL International Limited [1] 5th Floor One New Change, London, EC4M 9AF	UK	Lottery	Subsidiary	100	100
Lottovate Nederland B.V. Herengracht 124 1015 BT Amsterdam	Netherland	Lottovate business	Subsidiary	100	100
Lottovate United States Inc [2] 2711 Centerville Road, Suite 400 Wilmington, County of New Castle 19808 Delaware	United States of America	Lottovate business	Subsidiary	100	100

Name and registered office	Country	Principal activities	Nature of relationship with ZEAL Network	% effective interest	
				2017	2016
Tipp24 Investment 1 Limited[1] 5th Floor One New Change, London, EC4M 9AF	UK	Holding company	Subsidiary	100	100
Tipp24 Investment 2 Limited[1] 5th Floor One New Change, London, EC4M 9AF	UK	Holding company	Subsidiary	100	100
Lotto Network Limited[1] 5th Floor One New Change, London, EC4M 9AF	UK	Lottovate business	Subsidiary	100	100
eSailors Limited[3] Suite 1, 3rd Floor 11–12 St. James's Square, London, SW1Y 4LB	UK	Holding company	Subsidiary	40	40
Geonomics Global Games Limited 5th Floor One New Change, London, EC4M 9AF	UK	Holding company	Subsidiary	100	100
Geo24 UK Limited 5th Floor One New Change, London, EC4M 9AF	UK	Lottery	Subsidiary	100	100
Gratis Lotto Ltd Suite 1, 3rd Floor 11–12 St. James's Square, London, SW1Y 4LB	UK	Lottery	Subsidiary	16	16
myLotto24 Australia PTY Ltd Office 4, Building 5 356–366 Bagot Road Millner, Northern Territory, 0812	Australia	Lottery	Subsidiary	40	40
HSS Corp.[4] 702 S. Carson Street, Suite 200, Carson City, Nevada 89701	United States of America	Lottery	Subsidiary	40	–
myLotto24 South Africa Pty Ltd[5] 7 Martin Hammerschlag Way, Foreshore, Cape Town, 8001.	South Africa	Lottery	Subsidiary	40	–

[1] These subsidiaries are held directly by ZEAL Network.
[2] This subsidiary was dissolved on 27 February 2018.
[3] During the year, eSailors IT Solutions Limited changed its name to eSailors Limited.
[4] This subsidiary was incorporated on 10 January 2017. ZEAL Network SE has an indirect interest of 40%.
[5] This subsidiary was incorporated on 20 November 2017. ZEAL Network SE has an indirect interest of 40%.

Section 479A audit exemption

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

23 PERSONNEL EXPENSES

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

SEGMENTAL ANALYSIS

Director and employee numbers	Lottery Betting	Lottovate	**Total**
2017			
Executive Board	–	–	3
General Managers	6	3	9
Employees	163	93	256
Trainees	3	–	3
Temporary personnel	2	1	3
Total	**177**	**97**	**274**

Director and employee numbers	Lottery Betting	Lottovate	**Total**
2016			
Executive Board	–	–	3
General Managers	5	3	8
Employees	139	95	234
Trainees	3	–	3
Temporary personnel	2	–	2
Total	**152**	**98**	**250**[1]

[1] *The 2016 full time equivalent average number of employees has been restated to ensure consistency with 2017.*

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

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

Personnel expenses incurred during 2017 are included in the table below:

	2017	2016
in €k		
Wages and salaries	25,696	23,718
Pension contributions	485	424
Social security costs	2,449	2,563
Total employee benefit expense	**28,630**	**26,705**

These figures include remuneration for the Executive Board, further details of which are included in the Directors' Remuneration Report on pages 41 to 53.

24 SHARE BASED PAYMENTS

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

	2017	2016
in €k		
Outstanding at the beginning of the year	895	–
Granted during the year	559	895
Vested in the year	–	–
Forfeited in the year	(221)	–
Outstanding at the end of the year	**1,233**	**895**

The weighted average remaining contractual life of the outstanding awards is 0.82 years (2016: 1.47 years).

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

	2017	2016
Risk-free rate	(0.65%)	(0.80%)
Dividend yield	4.7%	7.6%
Share Price Volatility	37.0%	37.0%
Weighted average fair value per phantom share (€)	21.42	36.89

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

25 DIVIDENDS

During 2017, a dividend of €1.00 per share (€8,385k) was declared and paid (2016: 23,478k). For future periods, the Executive Board has proposed, and the Supervisory Board has approved, a dividend policy under which the Company intends to pay annual dividends, which are expected to amount to a total of at least €1.00 per share, subject to financial performance. An announcement of the amount of each dividend, and the record date for entitlement to the dividend, will be made in advance of payment of the dividend.

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

26 COMMITMENTS AND CONTINGENCIES

OPERATING LEASES

During 2017, ZEAL expensed rental payments for offices amounting to €3,120k (2016: €2,375k). The future minimum lease payments for the above non-cancellable operating leases are as follows:

Minimum lease payment	2017	2016
in €k		
Within 1 year	2,438	2,645
>1 – 5 years	7,306	8,322
>5 years	2,567	3,592
Minimum lease obligations	**12,311**	**14,559**

OTHER FINANCIAL COMMITMENTS

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

	2018	2019	2020	2021	2022 and beyond	Total
in €k						
Other contracts	**14,764**	–	–	–	–	**14,764**

CONTINGENT LIABILITIES

There is significant uncertainty as to whether VAT is due in respect of certain services provided by the myLotto24 sub group to customers domiciled in the European Union from 1 January 2015. Furthermore, there is uncertainty in respect of the tax base to be applied in the event that it is ultimately determined that VAT is due on any of these services. Based on a thorough legal assessment, which included a review of the existing legal framework and case law, the Directors consider, that the likelihood of outflow of economic resources is not probable and timings of associated financial impact is uncertain. Accordingly, the Directors have not recorded any liability in the Consolidated Financial Statements. Following recent dialogue with the tax authority in Germany it is estimated that in the event that ZEAL is unsuccessful in its defence, the potential financial effect is €41.3m (2016: €23.3m which has been restated to reflect a reduction of €5.7m following clarity over the expected basis of calculation). Although uncertain, it is expected that an outcome will be known within two to four years. In respect of other taxes and duties, with the exception of those provided in the Group financial statements, the Directors consider it unlikely that any further liability will arise from the final settlement of any such assessments. The Directors will continue to closely monitor any changes.

27 RELATED PARTIES

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

Note 22 to the Consolidated Financial Statements provides information about the Group's structure, including details of each subsidiary.

Oliver Jaster is a Member of the Supervisory Board. The operating business of Schumann e.K. was outsourced to a related company of Oliver Jaster, Günther Direct Services GmbH, Bamberg. In return, Günther Direct Services GmbH, Bamberg, received compensation of €115k for the year (2016: €114k). An amount of €41k (2016: €9k) was owed to Günther Direct Services GmbH at 31 December 2017, which was paid in full in January 2018.

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

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

The charitable foundation 'Fondation enfance sans frontières' Zurich, owner of the preference shares of myLotto24 Limited and Tipp24 Services Limited, has been identified as a related party. In 2017, dividends of £15.0k (2016: £15k) were paid by myLotto24 Limited to the Swiss Foundation. In addition £45.0k was paid by Tipp24 Services Limited to the Swiss foundation relating to the period 2014–2016. An amount of €15.0k has been accrued by Tipp24 Services Limited and myLotto24 Limited relating to the 2017 dividend payable to this Swiss Foundation. This is likely to be paid during 2018. No donations were paid by the Group to the Swiss Foundation during the year (2016: €38.0k).

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

Key management personnel disclosures have been made in the Remuneration Report and note 24 to the Consolidated Financial Statements.

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

28 CAPITAL MANAGEMENT

ZEAL operates a decentralised capital management system. All major decisions concerning the financial structure of the Lottovate segment are taken by the Executive Board of ZEAL Network. Capital management activities of the Lottery Betting segment are handled by myLotto24 Limited, with the exception of Tipp24 Services, which operates its own capital management system.

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

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

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

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

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

29 DISCLOSURES RELATING TO FINANCIAL INSTRUMENTS

29.1 FAIR VALUE

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

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

All financial instruments held by the Group at 31 December 2017 are classified as level 1, with the exception of the Omaze Investment, which is classified as level 3. This investment occurred on 1 May 2017 and is measured as a financial asset at a fair value of €1,843k. At 31 December 2017, the Directors consider the purchase price to be the best indicator of the fair value of this investment. There have been no changes in the fair value since the date of the investment.

For all level 1 financial instruments the carrying amount approximates the fair value. Of the short-term financial assets held at 31 December 2017 amounting to €27,123k (2016: €19,682k), €25,949k were available-for-sale financial assets (2016: €17,490k) and €1,174k were held-to-maturity financial assets (2016: €2,192k).

During 2017, there were no transfers between level 1 and level 2 fair value measurements and no transfers into or out of level 3 fair value measurements.

29.2 CREDIT RISK

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

Cash and other financial assets

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

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

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

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

Trade and other receivables

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

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

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

Contingent assets

There are no contingent assets.

29.3 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 which transfer of payment obligation risks to catastrophe bond bonds/preference shares via an ILS vehicle.

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

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

Year ended 31 December 2016	Within 1 year	Within 1 – 3 years	Within 3 – 5 years	Over 5 years	**Total**
in €k					
Trade payables	5,052	–	–	–	5,052
Other liabilities	20,781	2,199	–	–	22,980
Financial liabilities	123	–	–	–	123
Total	**25,956**	**2,199**	**–**	**–**	**28,155**

In addition to the amounts presented in the tables above, there are items excluded from Other liabilities, as they are not considered a contractual financial liability. This includes VAT in 2017 of €2,589k (2016: €1,333k), gaming duty of €163k (2016: €124k) and payroll related taxes and social security of €288k (2016: €307k).

29.4 INTEREST RATE RISK

ZEAL invests the majority of its funds in a combination of fixed term deposits. For these funds, which are mainly held in liquid or short-term investments, there is a general risk from changing interest rates. A sensitivity analysis was conducted for the portfolio of cash and short-term financial assets held on 31 December 2017 with an interest rate increase of 10 basis points. Assuming no changes are made to the portfolio in response to the interest rate increase, there would be a rise in interest income of €1,191k (in a simplified calculation). Under consideration of the duration of those investments currently in the portfolio, there would be an expected reduction of this interest income of €1k. The overall effect, therefore, would be an increase in interest income of €1,190k (2016: €1,145k).

29.5 CURRENCY RISK

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

For the presentation of currency risks, IFRS 7 requires sensitivity analyses, which display the effects of hypothetical changes of the relevant risk variables on earnings and equity. In order to determine the currency risk, a fluctuation of 10% of the Euro against currencies where the earnings of the Company are exposed to was assumed at 31 December 2017.

On the basis of this assumption, a 10% increase in the value of the Euro against the British Pound, Norwegian Krone, Czech Koruna, Australian Dollar and the US Dollar would result in a positive effect of €1,012k (2016: €952k) on earnings. A devaluation of 10% would result in a negative effect of €720k (2016: €1,167k) on earnings.

In the year ended 31 December 2017 there was a loss from foreign exchange movements on financial instruments of €422k (2016: loss of €1,304k).

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

30 EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE

There were no material subsequent events that require adjustment or disclosure in the financial statements for the financial year ended 31 December 2017 to the date of issue of this report.

COMPANY STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017

		2017	2016
ASSETS in €k	Note		
Non-current assets			
Property, plant and equipment		8	9
Deferred tax assets	A	–	–
Investments in subsidiaries	B	31,659	31,282
Loans to Group undertakings	C	964	11,243
Other investments	D	3,041	1,198
Total non-current assets		**35,672**	**43,732**
Current assets			
Trade and other receivables	E	205	2,368
Intercompany receivables		934	278
Other current assets and prepaid expenses		34	68
Cash and pledged cash		24,085	1,537
Total current assets		**25,258**	**4,251**
TOTAL ASSETS		**60,930**	**47,983**

COMPANY STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017

		2017	2016
EQUITY & LIABILITIES in €k	Note		
Non-current liabilities			
Other liabilities	F	147	513
Total non-current liabilities		**147**	**513**
Current liabilities			
Trade payables	G	757	895
Other liabilities	F	3,031	3,894
Provisions	H	177	200
Total current liabilities		**3,965**	**4,989**
Total liabilities		**4,112**	**5,502**
Equity			
Subscribed capital	I	8,385	8,385
Share premium	I	21,578	21,578
Other reserves		–	–
Retained earnings	I	26,855	12,518
Total equity		**56,818**	**42,481**
TOTAL EQUITY & LIABILITIES		**60,930**	**47,983**

PROFIT FOR THE FINANCIAL YEAR

As permitted by Section 408 of the Companies Act 2006, the parent Company's Income Statement has not been included in these financial statements. The parent Company's profit after taxation was €22,722k (2016: €1,083k).

These financial statements were approved by the Executive Board on 21 March 2018 and were signed on its behalf by:

Dr. Helmut Becker
Member of Executive Board

Jonas Mattsson
Member of Executive Board

Susan Standiford
Member of Executive Board

COMPANY STATEMENT OF CASH FLOWS
FOR THE PERIOD 1 JANUARY TO 31 DECEMBER 2017

	2017	2016
in €k		
Profit from continuing operations before tax	22,722	231
Adjustments for		
Depreciation and amortisation of non-current assets	6	6
Finance income	(79)	(1,364)
Finance costs	42	(160)
Income from shares in Group undertakings	(39,000)	(16,000)
Other non-cash changes	(5)	(2)
Changes in		
Trade and other receivables and prepaid expenses	1,541	599
Trade payables and other liabilities	(1,390)	1,007
Interest received	79	1,364
Interest paid	(42)	160
Income taxes paid	–	(2,148)
Cash outflow from operating activities	**(16,126)**	**(16,307)**
Cash flow from investing activities		
Income received from Group undertakings	39,000	16,000
Payments for acquisition of investment	(1,843)	(1,198)
Loans to affiliated companies	10,279	25,508
Investments in Group companies	(377)	(2,633)
Net cash inflow from investing activities	**47,059**	**37,677**
Cash flow from financing activities		
Dividends paid to the Company's shareholders	(8,385)	(23,478)
Repayment of intercompany loan	–	–
Net cash outflow from financing activities	**(8,385)**	**(23,478)**
Net decrease in cash, pledged cash and short-term financial assets	22,548	(2,108)
Cash, pledged cash and short-term financial assets at the beginning of the year	1,537	3,645
Cash and cash equivalents at the end of the financial year	**24,085**	**1,537**
Composition of cash and cash equivalents		
Cash and pledged cash	24,085	1,537

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

	Subscribed capital	Share premium	Retained earnings	**Total equity**
in €k				
Balance at 1 January 2016	**8,385**	**21,578**	**34,913**	**64,876**
Profit for the year	–	–	1,083	1,083
Other comprehensive income	–	–	–	–
Total comprehensive income for the year	**–**	**–**	**1,083**	**1,083**
Transactions with owners in their capacity as owners				
Dividends paid	–	–	(23,478)	(23,478)
As at 31 December 2016	**8,385**	**21,578**	**12,518**	**42,481**
Balance at 1 January 2017	**8,385**	**21,578**	**12,518**	**42,481**
Profit for the year	–	–	22,722	22,722
Other comprehensive income	–	–	–	–
Total comprehensive income for the year	**–**	**–**	**22,722**	**22,722**
Transactions with owners in their capacity as owners	–	–		
Dividends paid	–	–	(8,385)	(8,385)
As at 31 December 2017	**8,385**	**21,578**	**26,855**	**56,818**

ACCOUNTING POLICIES

The Group accounting policies described in Note 2 to the Consolidated Financial Statements also apply to the Company.

A DEFERRED TAX

The utilisation of tax loss carry forward and temporary differences of the holding company is subject to the achievement of taxable profits in periods, which are beyond the Company's current business plan and therefore the utilisation is uncertain. Consequently no deferred tax assets were recognised for these losses and temporary differences. Tax losses on which no deferred tax assets was recorded at 31 December 2017 amounted to €61,281k (2016: €45,879k). There were no material temporary differences at 31 December 2016 or 31 December 2017.

B INVESTMENT IN SUBSIDIARIES

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

A full list of the Company's direct and indirect subsidiaries is shown in note 22 to the Consolidated Financial Statements.

in €k	
Opening balance	31,282
Additions	475
Impairment	(98)
Closing balance	31,659

Additional investment in the current year relates to a capital contribution of €225k in ZEAL International Limited and €250k in Lottovate Limited.

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

C LOANS TO GROUP UNDERTAKINGS

Non-current	**2017**	2016
in €k		
myLotto24 Limited	414	10,914
Lotto Network Limited	550	300
Smartgames Technologies Limited	–	29
Total loans to group undertakings	**964**	**11,243**

The loan with myLotto24 Limited attracts interest at 2.65% per annum and is repayable in March 2020.

The loan with Lotto Network Limited attracts interest at 2.40% per annum and is repayable in March 2022.

The accrued interest payable on both loans amounting to €17k (2016 €234k) is included within current intercompany receivables.

D OTHER INVESTMENTS

On 1 May 2017, ZEAL Network SE secured a cash investment of €1,843k (USD $2,000k) in Los Angeles based start-up Omaze Inc. Cash consideration of €1,843k was paid for 2.8% interest. Omaze is disrupting charitable giving by offering once-in-a-lifetime experiences and exclusive merchandise in support of critical causes.

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

	2017	2016
in €k		
Balance as at 1 January	1,198	–
Additions	1,843	1,198
Impairment	–	–
Total other investments	**3,041**	**1,198**

E TRADE AND OTHER RECEIVABLES

As of the Statement of Financial Position date, there were no indications of impairment, which would have entailed the recognition of an impairment loss.

All trade and other receivables are due within one year of balance date. Further information available in note 29 to the Consolidated Financial Statements.

F OTHER LIABILITIES

Current	**2017**	2016
in €k		
Accrued liabilities	**2,205**	**2,280**
Intercompany trade payables	**–**	**1,322**
Employee benefits	**826**	**70**
VAT	–	217
Payroll related taxes and social security payable	–	5
Tax and social security payable	**–**	**222**
Total other liabilities – current	**3,031**	**3,894**

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

Non-current	2017	2016
in €k		
Employee benefits	147	513
Total other liabilities – non-current	**147**	**513**

Employee benefits

The Group operates a long-term incentive plan arrangement for certain employees. Further details have been disclosed in note 24 to the Consolidated Financial Statements.

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

G TRADE PAYABLES

Current	2017	2016
in €k		
Trade Payables	757	895
Total	**757**	**895**

All trade payables are due within one year of balance date. Further information available in note 29 to the Consolidated Financial Statements.

H PROVISIONS

Current	Opening balance 1 January	Utilisation/release	Additions	Closing balance 31 December
in €k				
Provisions for litigation	200	(23)	–	177
Total	**200**	**(23)**	**–**	**177**

Provisions for litigation

Provisions for litigation amounting to €177k at 31 December 2017 (2016: €200k) represent management's best estimate of the probable eventual cash outflow that will result from resolution of ongoing legal cases at 31 December 2017. Individual provisions included in provisions for litigation relate to cases that have been in progress for a number of years. It is difficult to predict the timing of any cash outflow that might result from cases awarded against the Company. As such, provisions for litigation have been classified as current liabilities as there is no certainty that any judgement against the Group (leading to an outflow of cash) would take place in annual periods commencing after 2017.

I SHARE CAPITAL AND RESERVES

Details of the Company's share capital and reserves are set out in note 21 to the Consolidated Financial Statements.

J HEADCOUNT AND COSTS

During 2017, the Company had an average of 17 full-time equivalent employees and 3 Directors (2016: 13 employees and 3 Directors).

Personnel expenses incurred during 2017 are included in the table below:

Current	**2017**	2016
in €k		
Wages and salaries	5,011	5,360
Pension contributions	122	130
Social security costs	628	460
Total employee benefit expense	**5,761**	**5,950**

K EVENTS AFTER THE REPORTING PERIOD

On 1 March 2018, the Company received a dividend of €13,000k from a related party, myLotto24 Limited. There were no other material subsequent events that required adjustment or disclosure in the financial statements for the financial year ended 31 December 2017 to the date of issue of this report.

OTHER INFORMATION

		2017	2016	2015	2014	2013
Customers						
Average Billings Per User per month	€	57.58	58.03	54.63	N/A	N/A
Average Monthly Active Users	No. k	379.8	375.7	372.2	N/A	N/A
Income statement	€k					
Billings		280,509	280,435	268,645	N/A	N/A
Revenue		134,295	112,935	88,962	140,702[1]	129,933[1]
EBIT		25,181	37,956	42,859	19,156[1]	19,459[1]
EBT		25,231	36,511	19,604	12,477[1]	18,831[1]
Profit for the year		17,178	25,951	1,346	5,317	10,187
Balance sheet	€k					
Cash, cash equivalents and securities (incl. pledged cash, cash equivalents and securities)		92,052	94,983	94,777	92,585	85,822
Total non-current assets		6,634	4,677	8,198	34,109	44,593
ASSETS		141,111	136,016	140,354	155,406	213,581
Current liabilities		32,730	36,259	43,711	37,471	36,821
Non-current liabilities		1,765	2,199	1,474	682	1,204
Equity		106,616	97,558	95,169	117,253	175,556
EQUITY AND LIABILITIES		141,111	136,016	140,354	155,406	213,581
Cash flow	€k					
Cash flow from operating activities		13,406	33,741	27,285	23,838	16,751
Cash flow from investing activities		(511)	(3,258)	(4,287)	(8,938)	(8,038)
Cash flow from financing activities		(8,385)	(23,478)	(23,478)	(62,888)	15,337
Personnel						
Number of employees	No.	274	250	257	274	140
Personnel expenses	€k	(28,630)	(26,705)	(25,434)	(20,701)[1]	11,090[1]
Expenses per employee	€k	104	105	103	76[1]	79[1]
Share (from 2004)						
Average number of shares (undiluted)	No.	8,385,088	8,385,088	8,385,088	8,385,088	8,268,421
Earnings Per Share (undiluted)	€	2.05	3.09	0.16	0.63[1]	1.30[1]
Operating cash flow per share (undiluted)	€	1.60	4.02	3.25	2.84	2.03
Ratios	%					
EBIT margin		18.8	33.6	48.2	13.6[1]	15.0[1]
Net operating margin		12.8	23.0	1.5	3.8[1]	7.8[1]
Return-on-equity (ROE)		16.1	26.6	1.4	4.5[1]	5.8

[1] *from continuing operations*

2012	2011	2010	2009	2008	2007	2006	2005	2004
N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A	335,947	346,776	264,235	204,696	154,094
142,731[1]	139,316[1]	101,882[1]	89,551	45,838	44,974	34,575	26,119	19,504
56,464[1]	51,905[1]	32,681[1]	23,052	8,897	8,949	7,244	6,048	3,207
56,782[1]	52,770[1]	33,167[1]	25,076	10,720	11,192	8,365	6,490	3,324
40,891	36,339	19,551	17,482	6,606	6,272	7,445	3,318	1,575
78,303	64,123	43,957	69,361	21,261	66,121	60,764	57,174	13,202
48,881	36,215	29,444	18,296	12,304	7,213	5,740	7,296	2,602
191,217	173,043	130,013	108,123	93,151	91,739	82,794	72,135	18,896
39,414	42,848	36,911	42,971	35,623	35,774	22,128	18,854	10,955
1,427	904	181	752	2,607	335	14	96	124
150,375	129,291	92,921	64,399	54,922	55,630	60,652	53,185	7,817
191,217	173,043	130,013	108,123	93,151	91,739	82,794	72,135	18,896
22,546	44,323	14,081	30,217	9,651	17,886	8,360	10,308	5,375
(8,098)	(24,157)	-48,446	25,579	(47,040)	(1,200)	(4,769)	(6,371)	(600)
0	0	8,950	(7,723)	(7,386)	(11,335)	–	40,035	175
104	128	121	132	185	154	144	114	95
10,760[1]	12,026[1]	10,110[1]	12,524	12,667	10,324	8,277	6,990	5,522
103[1]	94[1]	84[1]	72	69	67	58	61	58
7,985,088	7,985,088	7,715,614	7,730,961	8,032,265	8,524,199	8,872,319	7,191,100	6,451,928
4.99[1]	4.80[1]	2.85[1]	2.26	0.82	0.74	0.84	0.46	0.24
2.82	5.55	1.82	3.91	1.20	2.10	0.94	1.43	0.83
39.6[1]	37.3[1]	32.1[1]	25.7	19.4	19.9	21.0	23.2	16.4
28.6[1]	26.1[1]	19.2[1]	19.5	14.4	13.9	21.5	12.7	8.1
27.2	28.1	21.0	27.1	12.0	11.3	12.3	6.2	20.1

FINANCIAL CALENDAR

4 May 2018	Publication of Q.1 Report
1 June 2018	Annual General Meeting
2 August 2018	Publication of Q.2 Report
1 November 2018	Publication of Q.3 Report

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