# GAME CHANGER

WE DRIVE CHANGE IN THE LOTTERY INDUSTRY.

ANNUAL REPORT 2020


ZEAL

# A VERY SUCCESSFUL YEAR

**918k**
NEW REGISTERED CUSTOMERS GERMANY SEGMENT
(2019[1]: 274k)

**+235%**

**100%**
COST SYNERGIES REALISED

**€87.0m**
REVENUE
(2019: €113.5m) -23%

**€652.8m**
BILLINGS
(2019: €466.7m) +40%

**€246m**
FOR GOOD CAUSES
(2019: €94m) +162%

**€12.7m**
ADJUSTED EBITDA
(2019: €29.4m) -57%

**€27.79**
COST PER LEAD, CPL GERMANY SEGMENT
(2019[1]: €33.64) -17%

## OTHER HIGHLIGHTS

- Exceptionally good jackpot development
- High marketing investments drive growth
- Targeted cost synergies completely implemented
- Market share expanded
- €246 million for good causes
- Return to SDAX
- Market capitalisation more than doubled and exceeds one billion euros for first time

*[1] The corresponding 2019 financial indicators have been restated to include only the business allocated to the Germany segment as explained in note 3 of the Consolidated Financial Statements. This only includes the brokerage business of the LOTTO24 brand from its acquisition on 14 May 2019 and the Tipp24 brand from 15 October 2019 onwards (since the Business Model Change).*

*The definitions of the financial measurements disclosed above can be found in the Management System section on page 35 of this Annual Report.*

ZEAL Network SE is the parent of an e-commerce group of companies that create online lottery experiences for their customers. Founded in Germany in 1999, it was initially set up as a lottery broker and floated in 2005 – in one of Germany's most successful IPOs on the Frankfurt stock exchange at that time.

In 2009, the Group changed its focus from lottery brokerage to lottery betting and later moved its registered office to London.

In May 2019, ZEAL completed the takeover of LOTTO24 AG, transitioned its former Tipp24 secondary lottery business to a German online lottery brokerage business in October 2019, relocated its registered office back to Germany and successfully finalised the integration in 2020.

Today, we are the leading German online broker for state lottery and other permitted lottery products once again. Our aim is to innovate and drive change in the lottery sector while further expanding our market leadership!

ZEAL

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EXECUTIVE REVIEW

# 2020 – A SUCCESS, DESPITE CORONA

## LADIES AND GENTLEMEN,

In spite of corona (COVID-19), 2020 was a successful year for the ZEAL Group[1] in every way: thanks in particular to the exceptionally good jackpot development, billings rose strongly and with the highest marketing investments in our company history we gained 918 thousand new registered customers at an attractive CPL, thus further expanding our market share. At the same time, we not only implemented the targeted cost synergies in the course of the LOTTO24 takeover in full in the fourth quarter of 2020 – and even earlier than planned – but also launched a highly successful new product, the charity lottery 'freiheit+', provided €246 million for good causes and thrilled 83 customers with wins of €100,000 or more.

## FURTHER ON GROWTH COURSE

Our billings rose by 40% to €652.8 million (2019: €466.7 million). In addition to the first full consolidation of LOTTO24 the positive jackpot development and the associated strong acquisition of new registered customers contributed to this. The Germany segment accounted for €651.8 million of this total. For contractual reasons, the billings of our ONCE business in Spain are not included in the total. When comparing with the previous year, it should be noted however that in 2019 offered additional products (incl. Instant Win Games), the European lottery 'EuroMillions' and the US lottery 'Powerball') as part of our secondary lottery business, which were discontinued following the Business Model Change[2] in October 2019. Moreover, in the previous year the online lottery brokerage business of LOTTO24 was only part of the ZEAL Group as of 14 May 2019. LOTTO24 billings up to 14 May 2019 were therefore not included in the prior-year figures.

In 2020, the jackpot development of the individual lotteries was exceptionally favourable for us: the average jackpot of the German lottery 'LOTTO 6aus49', for example, was significantly higher in 2020 than in the previous year and exceeded the €20 million mark a total of five times (2019: four times). The product change introduced by the German Association of State Lottery Companies (DLTB) in September 2020 – among other things, by raising the first prize category to €45 million and the billings-increasing price rise – had a positive impact, especially in the fourth quarter. The average jackpot of the European lottery 'Eurojackpot' was also up on the previous year and reached the €90 million mark a total of six times (2019: four times), although not once in the fourth quarter (2019: twice).

WITH OUR COMBINATION OF COMMERCIALLY SENSIBLE MARKETING INVESTMENTS, HIGH NEW CUSTOMER GROWTH, POWERFUL TECHNOLOGY AND EXCITING PRODUCT INNOVATIONS, WE HAVE SET THE COURSE FOR A HIGHLY PROMISING FUTURE.

*Dr Helmut Becker, CEO, ZEAL*

Largely due to the expected dis-synergies in the course of the Business Model Change, our revenue fell year-on-year by 23% to €87.0 million (2019: €113.5 million). As with billings, revenue in 2019 still included the secondary lottery business but not the online lottery brokerage business of LOTTO24 up to 14 May 2019. In 2020, revenue in the Germany segment reached €80.0 million.

At 12.3%, our gross margin in the Germany segment was above the prior-year level (2019[3]: 11.7%). As the Spanish ONCE business is not included in billings but only in revenue, our margin trend is better reflected by the Germany segment than at Group level.

[1] *The ZEAL Group is comprised of ZEAL Network SE and its subsidiaries.*

[2] *The Business Model Change refers to the LOTTO24 takeover and the conversion of the former Tipp24 secondary lottery to the German online lottery brokerage business.*

[3] *The corresponding 2019 financial indicators have been restated to include only the business allocated to the Germany segment as explained in note 3 of the Consolidated Financial Statements. This only includes the brokerage business of the LOTTO24 brand from its acquisition on 14 May 2019 and the Tipp24 brand from 15 October 2019 onwards (since the Business Model Change).*

CEO
Dr Helmut Becker

## TARGETED COST SYNERGIES FULLY IMPLEMENTED

We also succeeded in further reducing our cost base: our personnel expenses and other operating expenses together fell by €13.8 million to €78.2 million in 2020 (2019: €91.9 million) – despite significantly higher marketing investments. It should also be noted here that the costs of LOTTO24 AG up to 14 May 2019 were not included and consequently the year-on-year cost savings would have been correspondingly higher. Despite an increase in marketing expenses of €10.5 million to €32.2 million in order to take advantage of the favourable market and jackpot environment (2019: €21.7 million), other operating expenses alone decreased by €12.7 million to €56.3 million (2019: €69.0 million).

The planned annual synergies of at least €57.0 million played a major role in achieving these cost savings. Our aim was to reach 80% of these cost synergies within one year and 100% within two years of completing the LOTTO24 takeover – in other words, by May 2020 and May 2021. Due to the strict implementation of the planned measures, however, we achieved our target much earlier than planned: in May 2020, we had already generated 91% of the targeted cost synergies and are delighted to report that we also realised 100% for the first time in the fourth quarter of 2020. With total expenses incurred for achieving the planned cost synergies of €15.0 million, we are also at the lower end of the targeted range of €15.0 million to €20.0 million and expect no further relevant costs.

As our recent performance demonstrates, the German online lottery brokerage market offers tremendous growth potential for the ZEAL Group: in our Germany segment, we gained 918 thousand new registered customers in 2020 (2019: 274 thousand) at acquisition costs per new registered customer (cost per lead, CPL) of €27.79 (2019: €33.64).

## EBITDA WELL ABOVE ALREADY UPGRADED GUIDANCE

As a result of revenue dis-synergies caused by the Business Model Change, there was an anticipated year-on-year decline in adjusted EBITDA to €12.7 million (2019: €29.4 million). However, this figure was above the already upgraded guidance for the year. Despite significantly increased marketing expenses, the Germany segment accounted for €11.8 million of this total. At €5.4 million, EBIT was also down on the previous year (2019: €9.1 million). Increased depreciation and amortisation of €12.0 million in total (2019: €8.8 million) resulting from the LOTTO24 takeover was offset by non-recurring income of €4.6 million (2019: non-recurring expenses of €11.4 million) relating mainly to the repayment of stamp duty reserve tax from the UK tax authority HMRC. Due to the € 3.4 million increase in the financial result and the € 6.6 million reduction in tax charges, our net profit of €7.9 million was well above the prior-year figure of €1.7 million.

## MARKET SHARE EXPANDED

According to information published by DLTB and the German Lottery Association (DLV), online revenue of the 16 state lottery companies and private lottery brokers with permits rose to €1,587 million in the fiscal year 2020 (2019: €1,035 million). This corresponds to a significantly increased online share of 20% (2019: 14%).

Whereas stakes generated online by all state-owned companies together grew by 40% to €913 million (2019: €651 million), our official online lottery brokerage business (incl. charity lotteries) with the brands LOTTO24 and the first full-year billings of Tipp24 rose by 78% to €652 million (2019: €366 million, full-year LOTTO24 billings and Tipp24 billings as of the Business Model Change on 15 October 2019). Consequently, we were able to further expand our online market leadership with a market share of 41% (2019: 35%).

## €246 MILLION FOR GOOD CAUSES

According to a DLTB statement, approximately 40% of stakes are allocated to good causes. In 2020, over €3.1 billion (2019: over €2.9 billion) was thus transferred to the respective state budgets or the beneficiaries in the form of taxes and duties. This corresponds to over €8.6 million per day for good causes throughout Germany – money which is vital for the financing of numerous projects in the field of welfare, sport and culture, as well as landmark and environmental protection. In the case of charity lotteries, such as 'Deutsche Fernsehlotterie' and 'freiheit+', at least 47% of stakes are channelled to good causes via taxes and duties. In the fiscal year 2020, our brokerage activities under the LOTTO24 and Tipp24 brands provided a total of €246 million for important social and community projects (2019: €94 million).

## 83 BIG WINNERS, OF WHICH NINE MILLIONAIRES

Many of our LOTTO24 and Tipp24 customers were among the winners once again this year: with an overall payout of around €237 million, a total of 1.7 million customers were delighted to receive the news of their winnings. The 83 big winners with prizes of €100,000 or more include nine newly created millionaires – two of them from playing the new charity lottery 'freiheit+'. Interestingly, despite the significantly larger proportion of male lottery players (about 70%), the new millionaires were almost evenly balanced with five male and four female winners. The largest single prize of almost €13 million went to a winner in Saxony-Anhalt. In line with its respective share of the total German population, most of the big prizes went to North Rhine-Westphalia, followed by Bavaria and Baden-Württemberg. Hamburg, however, brought up the rear with just one big winner.

**CFO**
Jonas Mattsson

## IMPACTS OF THE CORONA CRISIS

The overall reduction in consumer spending in the wake of the coronavirus (COVID-19) restrictions has not negatively impacted our business model so far. Lottery retail outlets have only been partially affected by lockdowns so no reduction in lottery sales has been seen and declining, less attractive jackpots levels have failed to materialise. However, we cannot say with certainty whether the restrictions on public life and significant increase in time spent at home have led to growth in online lottery brokerage. By chance, the jackpots during the two lockdown periods were high. As such, it is hard to gauge whether high customer activity during lockdown was due to attractively large jackpots or to increased online conversion as a result of the general circumstances. However, the positive development of DLTB as well as continuous new customer surveys on our websites indicate that, in addition to the main reason of making it easier to submit tickets at any time and from home, one of the reasons for switching from offline to online lottery – at least currently – was the aspect of safety in times of the coronavirus (COVID-19). Moreover, this exceptional situation has demonstrated that we can easily handle all business processes with our employees working almost entirely from home since March 2019. We are therefore well positioned to offer the best possible online lottery service to our customers, even in times like these, and to help limit the impact of this crisis on our employees, our customers and society as far as possible.

WE HAVE DELIVERED ON OUR PROMISES AND ALREADY FULLY REALISED THE PLANNED COST SYNERGIES IN THE FOURTH QUARTER OF 2020. WE ARE DELIGHTED THAT THIS IS ALSO REFLECTED IN OUR SHARE PRICE PERFORMANCE.

*Jonas Mattsson, CFO, ZEAL*

## DIVIDEND POLICY CONFIRMED

Due to the positive liquidity situation of the ZEAL Group and the expected further increase in profitability, we will propose a total payout of €20.2 million (2019: €17.9 million) to the Annual General Meeting on 1 June 2021. This corresponds to a dividend of €0.90 per share for the fiscal year 2020 (2019: €0.80). Depending on the economic development of the ZEAL Group, we have set ourselves the target of proposing a dividend of €1.00 per share to the shareholders at the Annual General Meeting in 2022, in line with the published dividend policy.

## GUIDANCE 2021

In fiscal year 2021, we plan to further expand our market leadership as an online provider of state lottery and other permitted lottery products. Depending on the general conditions, in particular the jackpot development, we expect billings of at least €700 million for the Germany segment. Following exceptionally strong jackpots in the previous year, we have assumed an average jackpot development, resulting in a lower growth rate than in the previous year. Moreover, we expect revenue to be at least €95 million in fiscal year 2021. With similarly high marketing investments as in the previous year of around €32 million to acquire new registered customers, adjusted EBITDA is expected to reach at least €20 million.

## DEAR SHAREHOLDERS,

Despite the corona crisis, we continued to grow and to increase our market share in 2020. The integration work following the takeover of LOTTO24 is completed, we achieved the promised cost synergies in the fourth quarter and demonstrated that we understand how to exploit market opportunities with 918 thousand registered new customers gained at economically favourable acquisition costs. We thank you for your support and for helping us achieve a market capitalisation of one billion euros. This fills us with pride and great confidence for the future ahead.

Hamburg, 23 March 2021

The Management Board

| **Dr Helmut Becker** | **Jonas Mattsson** |
|---|---|
| Chief Executive Officer | Chief Financial Officer |

# SUPERVISORY BOARD REPORT

## COOPERATION BETWEEN THE SUPERVISORY BOARD AND THE MANAGEMENT BOARD

In the reporting period, the Supervisory Board of ZEAL Network SE performed its statutory duties, regularly advising the Management Board and continuously monitoring its actions.

In the past fiscal year, the Management Board regularly and swiftly informed the Supervisory Board about external economic conditions, its considerations regarding the Group's future strategic alignment, the Group's current position and development, significant business transactions, risk management and compliance issues. During and outside meetings, it provided the Supervisory Board with timely, comprehensive and regular reports on current business developments or issues of particular significance. The Supervisory Board was directly involved in all decisions of the Management Board of fundamental importance for the Group.

## MEETINGS OF THE SUPERVISORY BOARD IN 2020

The Supervisory Board held a total of six meetings in 2020, which were attended by all members who held positions at the time of the meeting. The Supervisory Board held the majority of meetings as video conferences to ensure the contact restrictions recommended throughout the year for COVID-19 prevention purposes.

Apart from the Supervisory Board meetings, the Chairman of the Supervisory Board was also regularly provided with detailed and up-to-date information by the Management Board about significant business transactions and discussed various aspects of business policy with the Management Board. Consequently, the Supervisory Board was promptly informed at all times.

## MAIN TOPICS OF DISCUSSION

The meetings of the Supervisory Board focused on the following topics:

- The discussion and consultation of intercompany agreements;
- The development of revenue and earnings, as well as the financial position of ZEAL;
- The discussion of the new dividend policy;
- The determination, implementation and monitoring of IT strategy;
- Corporate planning, including marketing, investment and personnel planning;
- The determination of regulatory targets and the corresponding strategic alignment;
- The development of the regulatory and economic environment in Germany with regard to games of chance and in particular lotteries;
- Discussion and consultation of all business transactions requiring approval;
- The current risk exposure, as well as the risk management and compliance management systems;
- The continuous improvement of corporate governance and its adaptation to new statutory requirements;
- The determination of target attainment for the members of the Management Board for the fiscal year 2019 (short-term variable remuneration) and the fiscal years 2017–2019 (long-term variable remuneration), as well as the setting of targets for the fiscal year 2020 (short-term variable remuneration);
- The financial statements of the ZEAL Group and their audit.

## COMMITTEES

The Supervisory Board has (as of 31 December 2020) a Chairman's Committee, an Audit Committee, an Investment Committee and a Special Committee, each consisting of three or four members of the Supervisory Board. The respective committee chairperson reports regularly to the Supervisory Board on the work of the committee. If a committee has no chairperson, the entire committee reports. The Supervisory Board periodically reviews the adequacy of the committee structure with a view to setting up additional committees or dissolving no longer required committees if the need arises.

## CHAIRMAN'S COMMITTEE

The Chairman's Committee is responsible for the preparation of Supervisory Board meetings, coordination of committee meetings and ongoing exchanges with the Management Board on behalf of the Chairman of the Supervisory Board. The Chairman's Committee also performs the functions of Nomination and Remuneration Committees.

The Chairman's Committee meets as required. It held four meetings in 2020, which were attended by all members.

## AUDIT COMMITTEE

The Audit Committee is responsible for overseeing the external audit and monitoring the effectiveness of the Company's framework of internal control. The Audit Committee held six meetings in 2020. Its meetings are regularly attended by the Company's Chief Financial Officer. Key matters dealt with by the Audit Committee during 2020 included the Risk Report, the proposal by the Management Board to the Annual General Meeting for the appointment of the Company's and the ZEAL Group's auditors for the fiscal year 2020 as well as the award of the audit contract and the approval of the audit plan. The Committee also dealt with the Annual Financial Statements of the Company and the Consolidated Financial Statements as well as the Half-year Consolidated Financial Statements and Quarterly Statements of the ZEAL Group. The Audit Committee also reviewed and monitored the effectiveness of the ZEAL Group's internal controls and risk management systems. The Supervisory Board determined that all members of the Audit Committee have expertise in the fields of accounting or auditing in accordance with sections 107 (4), 100 (5) of the German Stock Corporation Act (AktG).

## INVESTMENT COMMITTEE

The Investment Committee is responsible for reviewing the Group's external investments and internal start-ups and deciding on approving investments in certain cases. The Investment Committee held one meeting in 2020.

## SPECIAL COMMITTEE

On 24 March 2020, the Supervisory Board set up a Special Committee which is responsible for granting the Supervisory Board's consent, as required by the Management Board's Rules of Procedure, for the Company to vote on resolutions at a General Meeting of LOTTO24 AG for which a member of the Company's Management Board would be subject to a voting ban if they were themselves shareholders of LOTTO24 AG. The Special Committee held one meeting in 2020.

## COMPOSITION AND CHAIRS OF THE COMMITTEES

Chairman's Committee: Peter Steiner (Chair), Oliver Jaster, Jens Schumann
Audit Committee: Thorsten Hehl (Chair), Frank Strauß, Peter Steiner
Investment Committee: Peter Steiner (Chair), Thorsten Hehl, Jens Schumann
Special Committee: Peter Steiner (Chair), Oliver Jaster, Marc Peters, Frank Strauß

## CORPORATE GOVERNANCE AND DECLARATION OF CONFORMITY

The Management Board and Supervisory Board issued a Declaration of Conformity according to section 161 AktG, which is also printed in the Corporate Governance Statement on page 21.

## AUDIT

The Annual Financial Statements for the fiscal year 2020 of ZEAL Network SE, as prepared by the Management Board in accordance with the German GAAP (HGB), and the Consolidated Financial Statements of ZEAL Network SE and respective management report for the fiscal year 2020 prepared in accordance with International Financial Reporting Standards (IFRS), as applied in the EU, and the additional commercial law regulations pursuant to section 325 (2a) HGB, were audited by the independent auditors, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Hamburg, who issued an unqualified audit certificate in each case. The Annual General Meeting appointed Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft as independent auditors for the Company and the ZEAL Group on 19 June 2020. In the fiscal year 2020, the audit partner in charge of the audit was Carl-Heinz Klimmer.

The Management Board and auditors provided all members of the Supervisory Board with the audit reports in due time. They were thoroughly examined and discussed at the meeting of the Audit Committee on 22 March 2021, which was also attended by the independent auditors. The review by the Audit Committee also covered the separate non-financial report. At the Supervisory Board meeting on 23 March 2021, the Supervisory Board comprehensively reviewed the audit report in the presence of the independent auditors, who reported on the scope, focal points and main findings of their audit, addressing, in particular, key audit matters and the audit procedures implemented. No major weaknesses in the Company's internal control or risk management systems were reported. At this meeting, the Management Board explained the Financial Statements and Consolidated Financial Statements of the Company as well as the Company's risk management system.

The Supervisory Board concurs with the results of the audit. Following the definitive findings of the Audit Committee's examination and our own examination, we have no objections. We approved the Annual Financial Statements and the Consolidated Financial Statements. The Annual Financial Statements are thereby adopted. We endorsed the Management Board's proposal that the net income available for distribution be used to pay out a dividend of €0.90 per share entitled to a dividend and that the remaining amount be carried forward.

## CHANGES IN THE COMPOSITION OF THE SUPERVISORY BOARD

Andreas de Maizière resigned from the Supervisory Board with effect to the end of the Company's Annual General Meeting on 19 June 2020. He was succeeded by Frank Strauß, who was appointed by a shareholder resolution at the same Annual General Meeting. We would like to thank Andreas de Maizière for his great cooperation and tireless efforts. His experience and foresight have been invaluable to us. We wish him all the very best for the future, both professionally and personally.

We would also like to express our sincere gratitude to our employees and the members of the Management Board for the high level of commitment in these times of change.

Hamburg, 23 March 2021

**Peter Steiner**
Chairman of the Supervisory Board

# BE A GAME CHANGER

€652m
BILLINGS
GERMANY SEGMENT

+78%

## RECORD LEVEL OF NEW CUSTOMERS

With the combined strength of LOTTO24 and Tipp24 under one roof, we won a record number of new customers in 2020 – the tangible success of our increased marketing investments, our multi-brand strategy, and the appeal of our brands. Thanks to an efficient marketing strategy and the further optimisation of our mobile offerings, we succeeded in expanding our online market share to 41%.

## GROWTH COURSE CONTINUED

In Germany, the online share of total lottery revenue reached 20% in 2020. Whereas stakes generated online by all state-owned companies together grew by 40% to almost €913 million, our official online lottery brokerage business (including charity lotteries) with the brands LOTTO24 and Tipp24 rose by 78% to €652 million.

918k
NEW REGISTERED CUSTOMERS
GERMANY SEGMENT

+235%

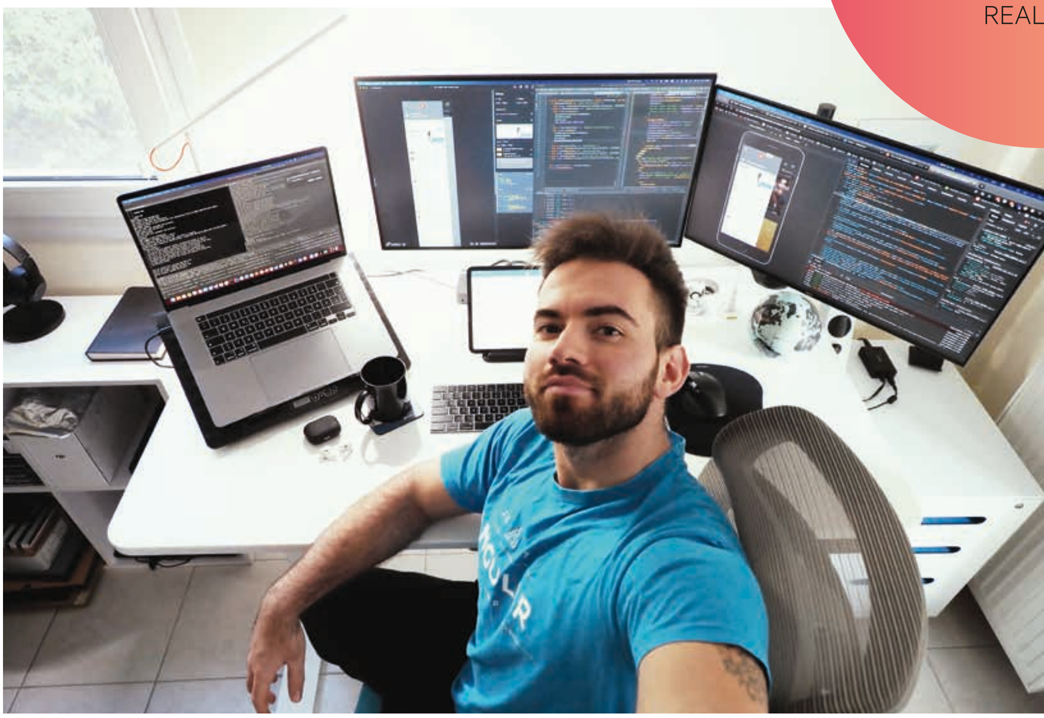
## OUR TARGETS

- Continue to expand our tried and trusted business models, especially in Germany and Spain
- Develop new lottery businesses
- Discover new start-up ideas in order to tap further target groups, gain important market knowledge and to test new product ideas quickly and cheaply

## SUCCESSFUL INTEGRATION

In November 2020, we successfully migrated LOTTO24 to the ZEAL Group's platform – thereby combining the 'best of both worlds', further consolidating the apps and creating a joint technology platform. All of this, of course, with the aim of making our entire offering even more user-friendly, not least by means of our modern back-end software architecture.

**100%**
COST SYNERGIES REALISED



## »EVERYTHING WENT REALLY SMOOTHLY DESPITE CORONA!«

*–DIMITRIS KIRIAKAKIS–*

The successful integration, as well as the coronavirus crisis (COVID-19), demonstrated the value of being a customer-centric technology company capable of building and developing our own core competencies and operating both our platform as well as our central systems ourselves.

It was no problem at all for us to offer our entire team the possibility to work from home right from the start of the first lockdown in March 2020. Since then, we have mostly been working remotely without it restricting our performance in any way. Something we are very proud of!

Everyone at ZEAL is able to act like a true owner: we make informed decisions by understanding customer needs, opportunities and risks across the ZEAL Group. We do the things that need to be done and are accountable for their outcome. We stay focused and strive to keep things simple. We work together every day to ensure that our values underpin everything we do. To this end, we foster a culture of innovation as well as open, honest communication and are committed to continuous learning and collaboration.

We take responsibility – for each other, for our customers, for society and for the environment. Wherever possible, we try to use natural resources sparingly – for example, by using green electricity whenever feasible, avoiding unnecessary waste and offering our employees subsidised bike leasing. We plan to retain many of our remote working methods even 'post corona'.

# ACT LIKE AN OWNER

At ZEAL, we put our customers first! One of our main objectives is to offer them the absolute best online lottery experience at all times and via any medium. To achieve this, colleagues from the relevant departments successfully work together in cross-functional and self-organised teams.

## »WE UNDERSTAND OUR CUSTOMERS«

*–MICHAEL LANGMAACK, OMID NEZAM–*

# THE CHARITY LOTTERY FOR MORE FREEDOM

freiheit+
DAS PLUS FÜRS LEBEN

We promote educational projects in Germany and around the world via the charity lottery 'freiheit+'. In 2020 alone, almost €2 million were awarded to 45 education projects of the initiators 'Stifterverband', 'SOS Children's Villages Worldwide' and the 'German Children and Youth Foundation – DKJS', as well as independent organisations including 'Vincentino e. V.' founded by Sandra Maischberger or 'coach@school e. V.' in Hamburg.

**€246m**
FOR GOOD CAUSES

We want to make the world a little bit better and take our responsibility for society seriously: in 2020, our activities provided a total of €246 million for good causes – money which is absolutely vital for the funding of numerous projects in the field of welfare, sport and culture, as well as landmark and environmental protection.

DEUTSCHE Fernsehlotterie
macht mehr als glücklich

Back in 2016, we were the first German online lottery broker to include 'Deutsche Fernsehlotterie' – Germany's oldest charity lottery to support people in need – in our product range. As a result, we provide indirect support for further social and community projects.

## ONCE

ONCE, a Spanish organisation for the visually impaired founded in 1938, helps people who are blind or have any visual impairment to live independent lives. Since 2012, our subsidiary Ventura24 has been responsible for managing ONCE's digital distribution channel – from product management to player acquisition and retention.

SUSTAINABLE GAMING

## 'DAS GRÜNE GLÜCK'

By buying stakes in the lotto club 'Das Grüne Glück', our customers can support the planting of trees in developing countries: we donate one tree per stake, three trees for two stakes and eight trees for four stakes. As a result, more than 215,000 trees were planted by the local population in 2020 – thus not only offering them employment prospects but also actively combating climate change.

## WE CARE! RESPONSIBLE GAMBLING

As a broker of Germany's most popular game of chance, number lotteries, it is our duty to encourage customers to play responsibly and to prevent them from becoming addicted – despite the low risk. We have therefore developed a social concept comprising a variety of measures: our multi-stage age verification procedure ensures that persons under the age of 18 do not have access to our product offerings, we have limited the maximum possible monthly stake to €1,000 and we offer players the possibility of being blocked from playing.

## TRUST & RESPECT

The basis of our team success is trust and respect – we assume good intentions in the words and deeds of our colleagues. ZEAL is a safe environment – come as you are. We are transparent, open and speak our minds even in difficult situations. We believe that humility and showing vulnerability make us stronger. All this requires exceptional and diverse people working collaboratively across functions.

In order to 'gauge the mood', we use an internal feedback tool that allows employees to give anonymous feedback on a weekly basis. This enables us to keep an eye on their mental health during the current remote working phase, to ensure their stress level is not too high and to check whether they are satisfied with their work and the working environment. We also designed our sports programme with the fitness network 'Qualitrain' in such a way that staff not only have the opportunity to take advantage of various sports offers such as gyms, swimming pools or yoga classes, but can also enjoy virtual sessions such as CrossFit or yoga with fitness trainers via Zoom, so they can also stay fit at home.

## CROSS-FUNCTIONAL UNDERSTANDING

In order to network different departments working on the same issue more effectively, we have set up so-called tribes. Each tribe consists of several teams and persons who, for example, are responsible for managing existing customers. In this tribe, CRM, product management, data analysts and software developers generate ideas together and subsequently roll them out as measures.

# PLAY AS A TEAM

NEW NORMAL

## DIVERSITY & EQUAL OPPORTUNITIES

At ZEAL, we live and value diversity and continued to promote it in 2020. We are convinced that when people from different cultural backgrounds work together, this increases our ability to innovate. For this reason, our corporate language is English – a good basis for people of 25 different nationalities to work together.

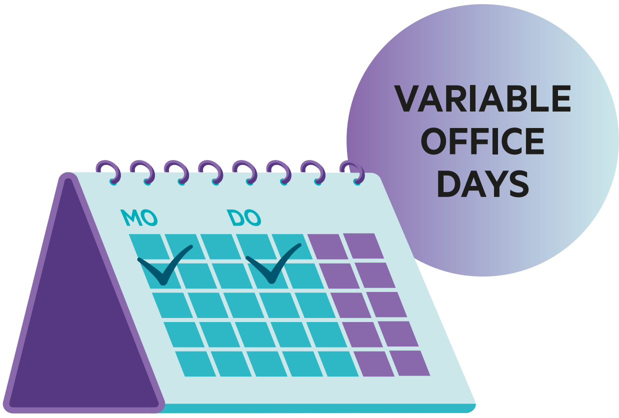
We promote equal career opportunities for women and men, for example by offering part-time work – and are proud of our part-time work ratio of 20%. We also offer parents seven additional paid days of leave to look after their children in the case of sickness.

**25**
NATIONALITIES

**20%**
PART-TIME RATIO

We value diversity and work well as a team – despite our inherent differences. ZEAL has a wide range of employees of all ages and experience levels – a small but select group of outstanding individuals. We collaborate closely, and also offer – or use – personal mentors. Something which is especially helpful in ensuring a smooth onboarding process for our new colleagues.

Our staff have set up a number of interest groups: for example they go to the gym together, play football, or hold regular whisky and gin tastings. In our gaming room, colleagues enjoy getting together for a round of table football or table tennis.




We have always offered our employees flexible working hours. In 2020, however, we decided to go one step further towards maximum flexibility: as soon as the corona-related restrictions are removed, only two days per week will be so-called 'in-office days'; on the other three days of the week, our employees can decide for themselves whether they want to work in the office or from home – of course in consultation with their manager and team.

# WE WORK AS FLEXIBLE AS POSSIBLE

## CHOOSE WHERE YOU WORK

In addition to the many attractive benefits we already offer our employees, we changed the way we work in 2020 to empower our employees even more, to ensure flexibility and to further improve their work-life balance.

The experience with the corona crisis has given us additional encouragement: since mid-March 2020, the entire ZEAL team has been working from home. During this time, productivity has been very high and the motivation of our staff has even increased.

After consulting their manager and team, ZEAL employees can work from anywhere in the world for four weeks a year – a fantastic opportunity not only for those with families and friends abroad. In addition, we have made our leave policy more flexible. Following the idea that it is more important to measure work performance and results than attendance, we allow our employees – in consultation with their manager and team – to take a flexible number of leave days as long as work performance and results are delivered as agreed.

»4@HOME: CHALLENGING BUT OFTEN ALSO FUN!«

*–VANINA & FRANK HOFFMANN, IR–*

# THE ZEAL SHARE

## STRONG SHARE PERFORMANCE WITH +130%, MARKET CAPITALISATION EXCEEDS ONE BILLION EUROS FOR FIRST TIME

### STOCK MARKETS 2020

Rarely has a single issue dominated a year so completely as COVID-19. All the issues that would have been major headlines under normal circumstances – such as Brexit, the US presidential election, the Wirecard scandal or the question of whether and how the economy would recover – were mere footnotes to what was anything but a normal stock market year. Contrary to all expectations, 2020 ultimately proved not to be a lost year for those investors who remained loyal to the stock markets: both the DAX and our benchmark index, the SDAX, rose by 2% and 18% respectively over the course of the year.

### ZEAL SHARE PERFORMANCE

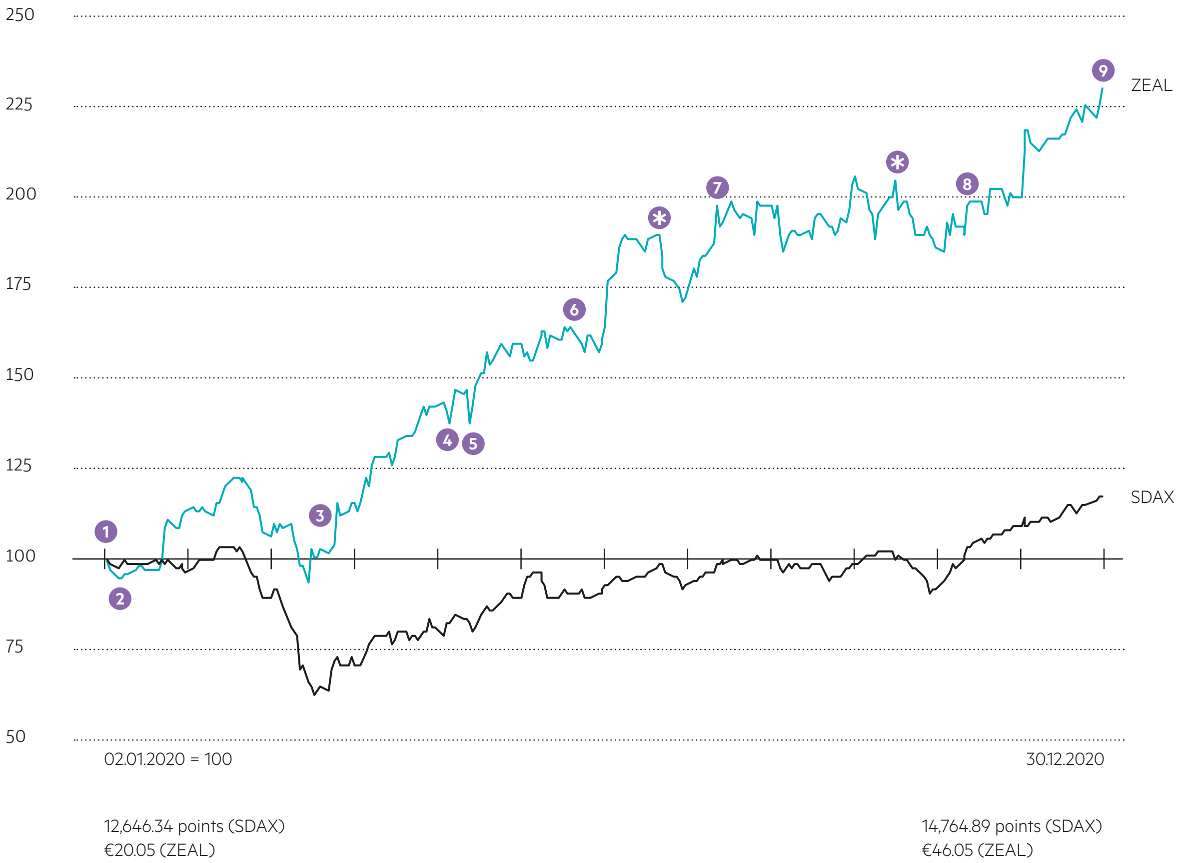
Since the Business Model Change in October 2019, the capital market has displayed a strong renewed interest in our share. On 19 February 2020, the date on which we published our preliminary results for 2019, the ZEAL share had already reached €24.60 – 23% above its year-opening price. On 26 March 2020, the day the 2019 Annual Report and the new dividend policy were published, the share price was €23.20. Following the announcement on 6 May 2020 that the ZEAL share had been selected for a return to the German SDAX, the share price rose further to €27.60 and continued to move upwards: in the context of the virtual Annual General Meeting, it reached €32.85 on 19 June 2020 and rose to €38.00 on 20 July 2020, fuelled by the first guidance upgrade. Over the following four months – also in connection with the second guidance increase on 15 October 2020 – the share moved mostly within the range of €37.00 to €40.00. On 30 November 2020 it was selected for the MSCI Global Small Cap Index and rose to €43.60 over the following trading days. With a further increase to €46.05 by 30 December 2020 and an annual performance of +130%, the ZEAL share closed a stock market year with a market capitalisation of over €1 billion (€1.031 billion) for the first time.

### ANNUAL GENERAL MEETING

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

Furthermore, Frank Strauß was elected as a member of the Supervisory Board after the Chairman of the Supervisory Board, Andreas de Maizière, resigned from his office at the end of the Annual General Meeting. Andreas de Maizière had supported ZEAL in the course of the combination with LOTTO24 and has now retired from the Supervisory Board after the very successful implementation. At the constituent meeting of the Supervisory Board, also held on 19 June 2020, Peter Steiner was elected as the new Chairman of the Supervisory Board.

**ZEAL SHARE PERFORMANCE**



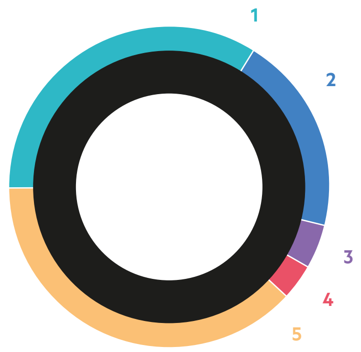

1 02.01. Opening price
2 06.01. Lowest price
3 26.03. Publication of Annual Report 2019
4 06.05. Return to SDAX
5 07.05. Publication of quarterly statement Q.I 2020
6 19.06. Virtual Annual General Meeting
7 13.08. Publication of half-yearly financial report 2020
8 12.11. Publication of quarterly statement Q.III 2020
9 30.12. Highest price, Closing prices
* Inside information

## SHAREHOLDER STRUCTURE

As of 31 December 2020, the subscribed capital of ZEAL Network SE amounted to €22,396,070 and was divided into 22,396,070 no-par value registered shares. The shares are fully paid. Each share entitles the owner to one vote and is decisive in determining the corresponding appropriation of profit. Our shares are admitted to trading on the regulated market with additional post-admission obligations (Prime Standard) of the Frankfurt Stock Exchange. Treasury shares held by the Company on the day of the Annual General Meeting have no voting nor dividend entitlements. As of 31 December 2020, there were 36,715 treasury shares.

According to published voting rights notifications and Directors' Dealings, the shareholder structure was as follows on 23 March 2021:

| | | |
|---|---|---|
| 33.89% | 1 | Günther Group |
| 20.18% | 2 | Working Capital |
| 4.46% | 3 | Marc Peters |
| 3.58% | 4 | Jens Schumann |
| 37.89% | 5 | Free float |




## DIVIDEND

Following the takeover of LOTTO24 AG and the resulting Business Model Change, we have adapted our dividend policy to the new circumstances: in view of the Company's relocation back to Germany in October 2019, we did not pay an interim dividend in December 2019 in accordance with German practice. Instead, we announced a dividend policy in line with the Company's development, based on continuity and sustainable earnings development, and paid a dividend of €17.9 million (€0.80 per share) in 2020 for the 2019 fiscal year.

Due to the positive liquidity situation of the ZEAL Group and the expected further increase in profitability, we will propose a total pay-out of €20.2 million (2019: €17.9 million) to the Annual General Meeting on 1 June 2021. This corresponds to a dividend of €0.90 per share for the fiscal year 2020 (2019: €0.80). Depending on the economic development of the ZEAL Group, we have set ourselves the target of proposing a dividend of €1.00 per share to the shareholders at the Annual General Meeting in 2022, in line with the published dividend policy.

## CONFERENCES AND ROADSHOWS

In order to exchange views on ZEAL Group strategy with our existing shareholders and present the Company to potential new investors, the Management Board and Investor Relations (IR) team once again took part in various virtual conferences during 2020 and held numerous one-on-one discussions. In addition, we conducted a number of conference calls, for example on publication of the annual and quarterly figures, which are stored on our website for subsequent reference.

We attach great importance to direct contact with our shareholders: on the one hand, this open discussion with analysts, as well as fund and portfolio managers, helps us understand the expectations and demands the capital market places on us, and on the other hand it gives investment companies the opportunity to contact ZEAL's Management Board members and IR team on a regular basis.

In 2021, we will continue to step up our various investor relations activities in order to maintain our close ties with existing investors and access new investor groups.

## ANALYSTS

In 2020, we were covered by Hauck & Aufhäuser Privatbankiers AG, Joh. Berenberg, Gossler & Co. KG, Kepler Cheuvreux and M.M.Warburg & CO.

**Basic data on the ZEAL share**

| | |
|---|---|
| WKN | **ZEAL24** |
| ISIN[1] | **DE000ZEAL241** |
| Ticker symbol | **TIMA** |
| Reuters code | **TIMAn.DE** |
| Bloomberg code | **TIMA:GR** |
| Stock exchange listing | **Frankfurt, Regulated Market** |
| Transparency level | **Prime Standard** |
| Index | **SDAX** |
| Designated sponsor | **M.M.Warburg & CO** |

[1] *International Securities Identification Number*

| Key figures for the ZEAL share | 2020 | 2019 |
|---|---|---|
| Number of shares on reporting day | **22,396,070** | 22,396,070 |
| Highest price (in €) | **46.05** | 24.10 |
| Lowest price (in €) | **19.00** | 16.44 |
| Share price on reporting day (in €) | **46.05** | 20.75 |
| Market capitalisation on reporting day (in € million) | **1,031.3** | 464.7 |
| Average daily trading volume (in €) | **879 thousand** | 382 thousand |
| Earnings per share (in €) | **0.37** | 0.09 |

# CORPORATE GOVERNANCE STATEMENT

In the following section, the Management Board and Supervisory Board report on the corporate governance and management of ZEAL.

## INTRODUCTION

Good corporate governance is a central aspect of our corporate policy which extends to every area of the Group: a management and control system based on responsible and sustainable value growth. In addition to organisational and business policy principles, we believe that the internal and external mechanisms for controlling and monitoring the Group are integral components, as are the efficient cooperation between Management Board and Supervisory Board, the transparent communication of Group activities and the respect of shareholder interests. With the aid of good corporate governance, we aim to promote the trust of national and international investors, financial markets, our business associates, employees and the general public in the management and monitoring of ZEAL.

In the Declaration of Conformity presented below – the latest version of which is also permanently available to shareholders on the Internet at zealnetwork.de – we explain which recommendations we do not comply with and why we deviate from them.

## DISCLOSURES ON COMPANY MANAGEMENT AND CORPORATE GOVERNANCE

**Declaration of Conformity with the German Corporate Governance Code ('Code') pursuant to Section 161 of the German Stock Corporation Act (AktG)**

I. The Management Board and Supervisory Board of ZEAL Network SE declare that since submitting the last declaration pursuant to Section 161 AktG in March 2020 the recommendations of the 'Regierungskommission Deutscher Corporate Governance Kodex' in the version dated 16 December 2019 and published in the official section of the Federal Gazette ('amtlicher Teil des Bundesanzeigers') on 20 March 2020 were complied with, with the exceptions set out and justified below:

1. *B.1 and C.1 (determination and publication of the status of the implementation of concrete objectives for the composition of the Supervisory Board; consideration of diversity for the composition of the Supervisory Board and the Management Board)* With regard to its own composition as well as the composition of the Management Board, the Supervisory Board supports, among other things, the aspects of internationality, participation of women and independence. However, the Supervisory Board will refrain for the time being from formally defining objectives for the composition of the Supervisory Board and Management that go beyond the requirements of stock corporation law in order not to restrict its selection criteria by setting concrete objectives and quotas.
2. *G.4 (vertical remuneration comparison)* The Supervisory Board duly deals with the appropriateness of the remuneration of the Management Board. In doing so, it also takes into account the Company's internal remuneration structure. However, the Supervisory Board is convinced that the determination of comparison groups and the consideration of the development over time will not lead to an improvement in the quality of decision-making, so that the Supervisory Board refrains from implementing these formal recommendations.

*II. The Management Board and Supervisory Board of ZEAL Network SE further declare that the recommendations of the 'Regierungskommission Deutscher Corporate Governance Kodex' in the version dated 16 December 2019 and published in the official section of the Federal Gazette ('amtlicher Teil des Bundesanzeigers') on 20 March 2020 will continue to be complied with in the future, with the exceptions set out and justified in Section I.*

Hamburg, March 2021

The Supervisory Board

The Management Board

# CORPORATE GOVERNANCE STATEMENT PURSUANT TO SECTION 289 F AND 315 D GERMAN GAAP (HGB)

The Corporate Governance Statement pursuant to section 289 f HGB and section 315 d HGB was made publicly available on the Company's website (zealnetwork.de). Pursuant to section 317 (2) sentence 6 HGB, the auditor's review of the disclosures pursuant to section 289 f and section 315 d HGB is restricted to whether the disclosures have been made.

**Declaration of Conformity**

In accordance with section 161 AktG, the Supervisory Board and Management Board have issued a Declaration of Conformity with the German Corporate Governance Code and made it permanently available to shareholders on the preceding pages of this Annual Report as well as via the Group's website (zealnetwork.de).

**Governance structure and cooperation of the Management Board and Supervisory Board**

As a German Societas Europaea (SE), ZEAL is subject to German corporate law and has a two-tier management system which consists of a Management Board (management organ) and a Supervisory Board (supervisory organ).

The Supervisory Board appoints, monitors and advises the Management Board. The two bodies work closely together: the Management Board informs the Supervisory Board regularly, comprehensively and in due time about all issues relevant to strategy, planning, business development, risk position, risk management and compliance. The Supervisory Board is immediately informed about ZEAL's strategic alignment and ongoing development, as well as any deviations in the course of business from the defined plans and targets.

## THE MANAGEMENT BOARD

### ROLE

The Management Board is responsible for running the day-to-day operations of the Group, setting the short-term and long-term strategic objectives and ensuring that these objectives are implemented. The Management Board's key objective is to create sustainable value for the Group's shareholders and other stakeholders. The Management Board manages ZEAL in accordance with the statutory provisions, the Company's Articles of Association, the Management Board's Rules of Procedure and the stipulations of the respective service agreements with the aim of achieving a sustainable added value.

### COMPOSITION

The Management Board currently comprises two members. Its members can only be appointed and removed by the Supervisory Board. The Supervisory Board is responsible for setting out the scope of the roles and responsibilities of each Management Board member together with decisions that must be adopted by all members of the Management Board. The Supervisory Board has set an age limit of 63 years for members of the Management Board.

### MEMBERS OF THE MANAGEMENT BOARD

**Dr Helmut Becker (Chair)**

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

**Jonas Mattsson**

Jonas Mattsson is responsible for Finance, Accounts, Taxes, Controlling, Investor Relations and the management of business activities in Spain.

## THE SUPERVISORY BOARD

### ROLE

The Supervisory Board is responsible for advising on and overseeing the work of the Management Board together with ratification of transactions that are of fundamental importance to the Group (as set out in the Company's Articles of Association).

## COMPOSITION AND MODE OF OPERATION

The Supervisory Board currently comprises six members. Its members are appointed and removed at the General Meeting of the Company by the shareholders. In determining the composition of the Supervisory Board, care is taken to ensure 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. All members of the Supervisory Board are to be regarded as independent. As a rule, the members of the Supervisory Board shall not hold office for longer than the end of the Annual General Meeting following their seventy-fourth birthday.

The Supervisory Board regularly evaluates its work and adopts improvement measures in the course of its regular self-assessment. To date, the Supervisory Board has not yet carried out a self-assessment, as the relevant requirements have only been in place since the Company's relocation in October 2019. The Supervisory Board intends to conduct a self-assessment in the course of 2021.

The Supervisory Board has adopted a skills profile for the Board as a whole. This requires the members of the Supervisory Board as a whole to be familiar with the online lottery sector and to have the skills which are necessary with regard to the activities of ZEAL. In particular, these include the following knowledge and experience:

- Special knowledge and experience in the lottery business (market and competition);
- Extensive knowledge in the field of finance/accounting and controlling;
- Special knowledge in the field of IT in the e-commerce environment;
- Experience in managing and monitoring a group of companies, including Corporate Governance requirements.

The Supervisory Board is of the opinion that its current composition complies with the aforementioned skills profile.

The members of the Supervisory Board take responsibility for the training and continuing education necessary for their tasks, such as on issues of Corporate Governance and changes in the legal framework, and are supported by the Company in doing so. New members of the Supervisory Board exchange views with the Management Board on current matters in the respective areas of the Management Board and are thereby able to gain an overview of the relevant topics of the Company.

The Chairman of the Supervisory Board is responsible for organising and coordinating the work of the 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 Management Board and informing the Supervisory Board of important events in relation to the management of the Group and, if required, convening extraordinary meetings of the Supervisory Board.

The following persons held seats on the Supervisory Board of ZEAL Network in fiscal year 2020:

- Peter Steiner (Chairman of the Supervisory Board from 19 June 2020)
- Oliver Jaster (Deputy Chairman)
- Thorsten Hehl (regular member)
- Jens Schumann (regular member)
- Marc Peters (regular member)
- Frank Strauß (regular member since 19 June 2020)
- Andreas de Maizière (Chairman of the Supervisory Board up to his resignation on 19 June 2020)

Peter Steiner is a member of the following other foreign supervisory boards which must be formed pursuant to statutory law, or other comparable domestic and foreign controlling committees:

- Clariant AG, Muttenz, Switzerland (Member of the Administrative Board, Member of the Nomination Committee, Chairman of the Audit Committee)
- Wienerberger AG, Vienna (Chairman of the Supervisory Board, Chairman of the Nomination Committee, Chairman of the Compensation Committee)

Thorsten Hehl is a member of the following other domestic supervisory boards which must be formed pursuant to statutory law, or other comparable domestic and foreign controlling committees:

- Günther Direct Services GmbH, Bamberg (Member of the Advisory Committee)
- LOTTO24 AG, Hamburg (regular member)

Oliver Jaster is a member of the following other domestic supervisory boards which must be formed pursuant to statutory law, or other comparable domestic and foreign controlling committees:

- Günther Holding SE, Hamburg (Chairman of the Administrative Board)
- Günther SE, Bamberg (Chairman of the Administrative Board)
- Günther Direct Services GmbH, Bamberg (Chairman of the Advisory Committee)
- All4cloud Management GmbH, Hamburg (Chairman of the Advisory Committee)
- All4cloud GmbH, Viernheim (Chairman of the Advisory Committee)
- G Connect GmbH, Munich (Chairman of the Advisory Committee)

Jens Schumann is a member of the following other domestic supervisory boards which must be formed pursuant to statutory law, or other comparable domestic and foreign controlling committees:

- next media accelerator GmbH, Hamburg (Member of the Advisory Committee)
- Contentflow GmbH, Berlin (Member of the Advisory Committee)
- LemonSwan GmbH, Hamburg (Member of the Advisory Committee)
- LOTTO24 AG, Hamburg (Chairman of the Supervisory Board)

Frank Strauß is a member of the following other domestic and foreign supervisory boards which must be formed pursuant to statutory law, or other comparable domestic and foreign controlling committees:

- European Bank for Financial Service GmbH, Aschheim (Chairman of the Supervisory Board)
- The Fifty Five Foundry Inc., Manhattan Beach (regular member)
- Fifty Five Genesis Project, Inc., Manhattan Beach (regular member)

The following table shows the positions held by the individual members of the Supervisory Board on the Supervisory Board and its committees:

| Name | Positions in the Supervisory Board and Committees |
|---|---|
| Peter Steiner | Chairman of the Supervisory Board, Chair of the Chairman's Committee, Chair of the Investment Committee, Chair of the Special Committee, Member of the Audit Committee |
| Oliver Jaster | Deputy Chairman of the Supervisory Board, Member of the Chairman's Committee, Member of the Special Committee |
| Thorsten Hehl | Chair of the Audit Committee, Member of the Investment Committee |
| Marc Peters | Member of the Investment Committee, Member of the Special Committee |
| Jens Schumann | Member of the Chairman's Committee, Member of the Investment Committee |
| Frank Strauß | Member of the Audit Committee, Member of the Special Committee |

## ANNUAL GENERAL MEETING

In addition to the Management Board and Supervisory Board, the General Meeting acts as the third corporate body. Our shareholders exercise their rights at the General Meeting and are involved in fundamental decisions concerning ZEAL. The Management Board, Supervisory Board and General Meeting are jointly committed to acting in the best interests of the shareholders and to the benefit of the Company. ZEAL's Annual General Meeting is held within the first six months of the fiscal year. In accordance with the Articles, the General Meeting is presided over by the Chairman of the Supervisory Board. The General Meeting resolves on all matters that are reserved for it by law (incl. the election of Supervisory Board members, amendments to the Articles, the appropriation of net profit and capital measures). ZEAL's aim is to make it easy for our shareholders to participate in the General Meeting: we publish all necessary documents on the Internet in advance and nominate a proxy for shareholders who is obliged to following their voting instructions.

**Transparency**

ZEAL attaches great importance to providing information uniformly, comprehensively and promptly. The business situation and results of ZEAL are disclosed via regular reporting in the form of the Annual Report, half-yearly financial report and quarterly statements. The Company provides full and swift information on specific events by means of press releases and publication of inside information in accordance with statutory regulations. All publications, press releases and announcements are available on our website (zealnetwork.de) in the Investor Relations section. Moreover, we are available for discussions at analyst, investor and telephone conferences as well as international roadshows. ZEAL also keeps insider lists as required and informs the persons concerned about their statutory duties and penalties.

**Audit**

Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Hamburg, was reappointed as auditors of the Company and the Group by the ZEAL Annual General Meeting on 19 June 2020. As of fiscal year 2019, the audit partner in charge of the audit has been Carl-Heinz Klimmer.

**Definition of target figures for the proportion of women on the Supervisory Board, Management Board and management levels; diversity**

In 2020, the Supervisory Board set a target percentage of women for its composition of 0% until 28 February 2025.

The Supervisory Board set the same target percentage for the Management Board, also until 28 February 2025.

The Management Board set targets of 30% for the percentage of women at the two management levels below the Management Board in 2020, also by 28 February 2025.

According to recommendation C.1 of the German Corporate Governance Code ('Code'), the Supervisory Board shall specify concrete objectives for its composition and, within this framework, take diversity into account. The Supervisory Board has not resolved on the determination of specific objectives for its composition. While the Management Board and Supervisory Board are of the opinion that the current composition of the Supervisory Board fulfils the criteria set out in recommendation C.1 of the Code, all proposals for appointments to a corporate body of ZEAL Network SE are always made with a view to selecting candidates with the best qualifications and personal experience, thus complementing the composition of the committee as a whole. The Management Board and Supervisory Board are therefore of the opinion that fixed targets for the composition of the Supervisory Board are not suitable for achieving an efficient and qualified Supervisory Board. Accordingly, the Supervisory Board has also refrained from setting a minimum percentage of women above 0%.

According to recommendation B.1 of the Code, the Supervisory Board shall take diversity into account with regard to the composition of the Management Board. The Management Board and Supervisory Board are of the opinion that the current composition of the Management Board fulfils this recommendation. The above considerations regarding the composition of the Supervisory Board apply accordingly to the Management Board, for which the Supervisory Board has therefore also refrained from setting a minimum percentage of women above 0%.

According to recommendation A.1 of the Code, the Management Board should take diversity into account when filling management positions in the Company. The Management Board supports the diversity already existing in the workforce as a whole and also reflected in the composition of the two management levels below the Management Board.

## DIRECTORS' DEALINGS

According to Article 19 of the Market Abuse Regulation, members of the Management Board and Supervisory Board, as well as closely associated persons, are obliged to declare any transactions relating to ZEAL shares, insofar as the value of the transactions during one calendar year reaches or exceeds €5 thousand. ZEAL immediately publishes details of such transactions on its website and submits the corresponding voucher to the Federal Financial Supervisory Authority ('Bundesanstalt für Finanzdienstleistungsaufsicht'). All transactions reported to ZEAL in the past fiscal year have been duly published and are available on our website (zealnetwork.de).

## DISCLOSURE ON SHAREHOLDINGS OF MEMBERS OF THE MANAGEMENT BOARD

Details of the share interests of the members of the Management Board as at 31 December 2019 and 2020, or at date of their departure from the Management Board, are as follows:

| BENEFICIALLY OWNED SHARES | | 2019 | Changes | 2020 |
|---|---|---|---|---|
| Dr Helmut Becker[1] | CEO | 21,509 | 4,347 | **25,856** |
| Jonas Mattsson[1] | CFO | 7,000 | 1,600 | **8,600** |

*1 The following dividends were paid to each of the members of the Supervisory Board and Management Board during the 2020 fiscal year: Dr Helmut Becker – €20,685, Jonas Mattsson – €6,880*

# NON-FINANCIAL REPORT

## EMPLOYEES

### NEW CORPORATE VALUES

In internal surveys conducted within the organisation and in more than 15 workshops, we worked together with our employees to develop new corporate values that significantly shape our identity.

With the fundamental understanding that every single employee helps to shape corporate culture and that our individual behaviour shapes our culture, the new corporate values were rolled out at company-wide team workshops throughout the year.

**Act like an Owner**

We are able to act like true owners. This means that we make informed decisions by understanding customer needs, opportunities and risks across the ZEAL Group. We do the things that need to be done and are accountable for their outcome. We stay focused and strive to keep things simple.

**Play as a Team**

The basis of our team success is trust and respect – we assume good intentions in the words and deeds of our colleagues. We are transparent, open and speak our minds even in difficult situations. We believe that humility and showing vulnerability make us stronger. All this requires exceptional and diverse people working collaboratively across functions.

**Be a Game Changer**

If you want to change the game, you have to be brave and challenge the status quo. We embrace failures and mistakes along the way. We love crazy, new ideas and enjoy the adventure on the way to becoming a world-class e-commerce company, improving every day and forging ahead to shape the future of lottery.

### NEW CAREERS WEBSITE

In order to ensure the ongoing successful recruitment of new employees for the ZEAL Group, we launched our revamped LOTTO24 careers website in June 2020. With a new look and plenty of fresh content, the site gives applicants an authentic view of the Group as an employer and offers an insight into our work. The new website provides information about our corporate culture, our benefits and the various teams that work for us. It also makes it easy for potential candidates to apply for vacant positions.

### DIVERSITY & EQUAL OPPORTUNITIES

At ZEAL, we live and value diversity and continued to promote it in 2020. We are convinced that when people from different cultural backgrounds work together, this increases our ability to innovate. For this reason, our corporate language is English – a good basis for people of 25 different nationalities to work together.

ZEAL also promotes equal career opportunities for women and men, for example by encouraging part-time work. We are proud of our part-time work ratio of 20%. Furthermore, we offer parents seven additional paid days of leave to look after their children in the case of sickness.

At 31 December 2020, ZEAL had 160 employees excluding the two Management Board members and student helpers (full-time equivalents, 2019: 181)

| NUMBER OF EMPLOYEES[1] | **31.12.2020** | 31.12.2019[2] |
|---|---|---|
| ZEAL total | 178 | 218 |
| of which women | 62 | 85 |
| of which part-time staff | 35 | 59 |
| of which women working part-time | 29 | 41 |
| Average age of staff in years | 37 | 36 |
| Nationalities | 25 | 25 |
| Employees (full-time equivalent) | 160 | 181 |

[1] *At end of reporting period; excluding Management Board members, students and temps*
[2] *Prior-year figures adjusted*

### NEW NORMAL – BREAKING WORKING PATTERNS

In addition to the many attractive benefits we offer our employees, we changed the way we work last year to empower our employees even more, to ensure flexibility and to further strengthen their work-life balance. The experience with the corona crisis has given us additional encouragement: since mid-March 2020, the entire ZEAL team has been working from home. During this time, productivity has been very high and the motivation of our staff has even increased.

We have always offered our employees flexible working hours. In 2020, however, we decided to go one step further towards offering maximum flexibility: as soon as the corona-related restrictions are removed, only two days per week will be so-called 'in-office days'; on the other three days of the week, our employees can decide for themselves whether they want to work in the office or from home in consultation with their manager and team.

In addition, we have made our leave policy more flexible. Following the idea that it is more important to measure work performance and results than attendance, we allow our employees – in consultation with their manager and team – to take a flexible number of leave days as long as work performance and results are delivered as agreed.

Moreover, our employees can work from anywhere in the world for four weeks a year. This gives colleagues with families and friends abroad in particular the opportunity to visit them and enjoy an excellent work-life balance.

### MENTAL HEALTH

We also support our employees with regard to their mental health: for example, our managers have regular 1:1 meetings with their staff to talk about issues such as workload, stress at work, teamwork and other topics. If an employee has mental health issues, we offer support from our company doctor as well as psychological help.

In addition, we use an internal feedback tool that gives employees the opportunity to provide anonymous feedback on a weekly basis. This ensures that they are mentally well, that stress levels do not get too high and that they are satisfied with their work and their working environment.

True to the motto 'In a healthy body lives a healthy mind', we offer our employees further benefits that promote health. In January 2020, we started a partnership with the fitness network 'Qualitrain'. This gives our employees the opportunity to take advantage of various sports offers such as gyms, swimming pools or yoga classes. During the corona period, we also organised virtual sessions such as CrossFit or yoga with fitness trainers via Zoom, so that our employees also have the possibility to stay fit at home.

Our office is designed in such a way that it offers employees the healthiest possible working day. Fresh fruit is provided for everyone in our kitchens on a daily basis, and staff can play table tennis or table football during breaks to compensate for the sedentary nature of office work. Furthermore, we organise a Health Day for all employees once a year.

In order to get to the office in the healthiest and most environmentally friendly way possible, we also offer our employees the opportunity to lease a bicycle or e-bike from us at reduced rates.

### ATTRACTIVE COMPENSATION

In order to attract and retain excellent employees in a highly competitive environment, we pay salaries in line with the prevailing market rates. We also encourage employees to purchase shares in the Company via an employee share ownership programme. Employee remuneration consists of fixed and variable salary components as well as additional component options, such as company pension schemes or company-subsidised bike leasing.

## CORPORATE SOCIAL RESPONSIBILITY (CSR)

### €246 MILLION FOR GOOD CAUSES

We attach great importance to corporate social responsibility and make a major contribution to society: ever since lotteries have been supervised by the state, money has flowed into numerous socially relevant projects. Around 40% of stakes received by the state lottery companies benefited society as a whole over the past few years in the form of taxes and duties, a further 50% is returned to players in the form of prizes and about 10% is spent on marketing and administration. According to DLTB figures, over €3.1 billion was transferred to the state budgets or beneficiaries in the form of taxes and duties in 2020 (2019: over €2.9 billion). This corresponds to over €8.6 million per day for good causes throughout Germany – money which is absolutely vital for the funding of numerous projects in the field of welfare, sport and culture, as well as landmark and environmental protection. In the case of charity lotteries, like 'Deutsche Fernsehlotterie' and 'freiheit+', at least 47% of stakes are made available for good causes in the form of taxes and duties.

In total, our brokerage activities under the LOTTO24 and Tipp24 brands provided €246 million of support for important social and community projects in fiscal year 2020 (2019: €94 million).

## RESPONSIBLE GAMBLING

Number lotteries are by far the most popular form of gambling in Germany: more than ten million Germans play them every week. According to the results of various studies, this type of gambling and other classic lotteries pose only a low risk of addiction. Nevertheless, as a lottery operator and broker, it is our duty to encourage existing and potential customers to play responsibly and to prevent them from developing an addiction. After all, the combination of self-control by each individual and external control by the game operator offers the greatest chance of counteracting the dangers of addiction or loss of control.

We have therefore developed a social concept comprising a variety of measures that address the risks of addiction, fraud, manipulation and crime and prevent the socially harmful effects of gambling.

In addition to our general terms and conditions – which provide our customers with basic information on control mechanisms and exclusions, in other words the need for self-control and external control – we inform every player before participation about the potential risks associated with gambling, give advice on prevention and help, and provide information on participation and gambling regulations as well as on all relevant aspects of gambling.

In particular, our multi-stage age verification procedure ensures that persons under the age of 18 do not have access to our product range.

In order to counteract uncontrolled gambling by our customers, we have limited the maximum possible monthly stake to €1,000 – a figure that every player can further reduce at any time and by any amount. In addition, we have implemented a system by which players can easily block themselves or, in the case of conspicuous gambling behaviour or deception attempts, can also be blocked by third parties from playing in future. By providing an additional link to the help pages of the Federal Centre for Health Education ('Bundeszentrale für gesundheitliche Aufklärung', BZgA) at 'spielen-mit-verantwortung.de', we also enable players to make use of professional counselling services.

Since our employees with direct customer contact are usually the first point of contact, we regularly train them on various topics such as informing customers about the probability of winning and losing from gambling, the potential risks of gambling, the law prohibiting underage gambling, and the possibilities for counseling and treatment of gambling problems.

Last but not least, we have appointed a Gambling Prevention and Youth Protection Officer who acts as an interface between the game providers, the support system for problem gamblers and the corresponding monitoring by the scientific community, as well as coordinating the development and implementation or continuation of all measures to protect players.

We are committed to responsible lottery playing and fully comply with the legal and licensing requirements of the supervisory authorities.

## STRONG PARTNERSHIPS

By partnering with charities – such as the Spanish ONCE – we strive to make the world a little bit better. The Spanish organisation for the visually impaired helps people who are blind or visually impaired to live independent lives. Founded in 1938, ONCE prides itself on having created a range of specialised services that have enabled thousands of people to fulfil their potential. Its mission includes creating jobs, offering scholarships and building hospitals, schools and specially equipped sports and recreational facilities. To increase its financial scope and optimise online distribution, ONCE partnered with our subsidiary Ventura24 in 2012, which has since been responsible for managing the digital distribution channel – from product management to player acquisition and retention.

In 2016, we were also the first German lottery broker to include 'Deutsche Fernsehlotterie' – Germany's oldest charity lottery to support people in need – in our product range. As a result, we provide additional indirect support for further social and community projects.

In February 2020, we launched the lotto club 'Das Grüne Glück'. By buying stakes, our customers can support the planting of trees in developing countries, as we donate one tree per stake, three trees for two stakes and eight trees for four stakes. In the fiscal year 2020, more than 215,000 trees were planted by the local population with the aid of our project partner Eden Reforestation Project. As well as actively combating climate change, this project also offers employment prospects for the local population.

With the new charity lottery 'freiheit+' that ZEAL developed on behalf of BildungsChancen gGmbH, we have been promoting educational projects in Germany and around the world since March 2020. Its aim is to help people tap their personal potential, which in turn benefits society as a whole. In 2020 alone, almost €2 million was already awarded to 45 education projects. This money is used to sponsor projects of the lottery's three initiators 'Stifterverband', SOS Children's Villages Worldwide and the 'German Children and Youth Foundation – DKJS', as well as numerous projects of independent organisations. Examples of the latter include 'Vincentino e. V.' founded by the journalist Sandra Maischberger in Berlin and 'coach@school e. V.' in Hamburg, whose patron is the German author of children's fiction Cornelia Funke.

The education sector has not been spared from the corona crisis. As the operator of the 'freiheit+' lottery, BildungsChancen gGmbH therefore reacted in April by awarding ten amounts of €1,000 in immediate aid. This provided support for projects of particular importance during the coronavirus pandemic – such as the child shelters 'Mattisburgen' sponsored by Ein Platz für Kinder gGmbH. In addition, up to 10% of all funds currently generated by the lottery are earmarked for education-related corona aid. These funds, for example, helped Ackerdemia e. V., an organisation which offers families interesting and useful employment possibilities during lockdown in the form of a farming programme. The aim here is to increase society's appreciation of nature and food and to strengthen healthy and sustainable consumption. Ambassador and patron of Ackerdemia is Christoph Biemann, a German TV personality famous for 'Sendung mit der Maus', a programme which has been presenting interesting facts about everyday life to young and old since 1983.

## ENVIRONMENTAL PROTECTION AND SUSTAINABILITY

Sustainability and climate protection affect us all, which is why we also want to play our part. When procuring office equipment and IT, for example, we make sure that as many products as possible are certified. Our IT 'fleet' is on average three years old, while almost all computers and monitors have high-efficiency Energy Star ratings. Retired hardware is only disposed of in exceptional cases. Instead, we support schools, for example, by donating equipment to improve their facilities and – in the interests of sustainability – to extend the life cycle of our hardware. We also considered ecological aspects in switching more and more to cloud-based services such as Amazon's AWS: shifting from our previous data centre – which typically runs statically at full-load capacity and leads to energy inefficiencies due to our highly dynamic business volumes – to shared servers and autoscaling models. This is enabling us to increase the energy efficiency of our platforms while also making them cleaner through the use of over 50% renewable energy. Our largest non-cloud data centre in Frankfurt and our smaller centre in Hamburg also run on 100% green power.

In addition, we have a policy in our offices that computers and monitors are to be switched off when leaving the office.

## ECO-CONSCIOUS RESOURCE MANAGEMENT

As a pure e-commerce company that mostly brokers lottery products via the Internet and does not have any production facilities, we neither need nor consume any resources beyond the typical day-to-day office needs of a company in rented premises – apart from the operation of our own data centre in Hamburg, our other data centres are run by external providers. Despite the resulting comparatively low waste volumes – discarded cardboard/paper, residual waste, recyclables etc. are separated in-house at our headquarters in Hamburg – we continuously review everyday processes in order to identify scope for further improvement. To this end, among other things, employees from different departments have launched the GREEN ZEAL initiative as part of a hackathon, which also looks at the little things: for example, we have changed the previous coffee machine with its unnecessarily high level of plastic waste due to the use of capsules to a more environmentally friendly model.

Following the takeover of LOTTO24 AG in May 2019 and the subsequent Business Model Change in October 2019, we have significantly reduced the office space we use over the last two years from a total of around 5,000 square metres to just under 2,900 square metres. In the process, we merged our two offices at the Company's headquarters in Hamburg, relocated our office in Madrid to a WeWork shared facility and also moved into significantly smaller offices in London. At our headquarters in Hamburg, we procure electricity from 100% renewable energy sources, whose electricity labelling is certified according to the TÜV SÜD standard QED. Here, we more than halved our electricity consumption in 2020 to 188,806 KWh (2019: 447,291 KWh), largely thanks to corona-related home office activities since March 2020.

The coronavirus pandemic has also had a lasting impact on our daily work: since March 2020, almost all of our employees have been working from home as we can also easily handle our business processes in this way and thus help limit the impact of the crisis on our employees, customers and society to a large extent. In doing so, we also changed our internal, group-wide communication and telephony platform, so that we now increasingly communicate both internally and externally via video conferencing systems. Among other things, this development has greatly reduced our business travel, such as business flights, and improved our carbon footprint. The digitisation of internal processes is also optimising our use of resources. By introducing first 'Expensify' and later 'EASY' – tools for digital invoice processing and approval – we have not only simplified our remote working processes but also reduced the use of paper, as invoices are now passed on and approved digitally rather than in paper form. The same applies to our Human Resources department: here we have started to digitise our personnel files and only file those documents in paper form that are absolutely necessary by law. In addition, we now collect signatures digitally with the 'Hello Sign' tool and thus avoid unnecessarily high paper consumption.

All these measures are designed to keep our resource needs and consumption at our three locations at a low and thus comparatively climate-friendly level and to improve them even further where possible.

# GROUP MANAGEMENT REPORT

ZEAL Network SE is the parent of an e-commerce group of companies that create online lottery experiences for their customers. Founded in Germany in 1999, it was initially set up as a lottery broker. In 2005, it was floated on the Frankfurt stock exchange and became one of the most successful initial public offerings (IPOs) in Germany at the time.

In 2009, the Group changed its focus from lottery brokerage to lottery betting and later moved its registered office to London.

In May 2019, ZEAL completed the takeover of LOTTO24 AG. It transitioned its former Tipp24 secondary lottery business to a German online lottery brokerage business in October 2019 and has since become the leading German online broker for state lottery and other permitted lottery products once again. In the same month, it relocated its registered office back to Germany.

## BASIC PRINCIPLES OF THE COMPANY

### BUSINESS MODEL

#### ORGANISATIONAL STRUCTURE

ZEAL Network SE is a Societas Europaea (SE) with its registered office in Hamburg, Germany. Following the takeover of LOTTO24 on 14 May 2019 and the Business Model Change on 15 October 2019, the Group reviewed its reportable operating segments and determined that the segments Germany and Other should be used as of 1 January 2020:

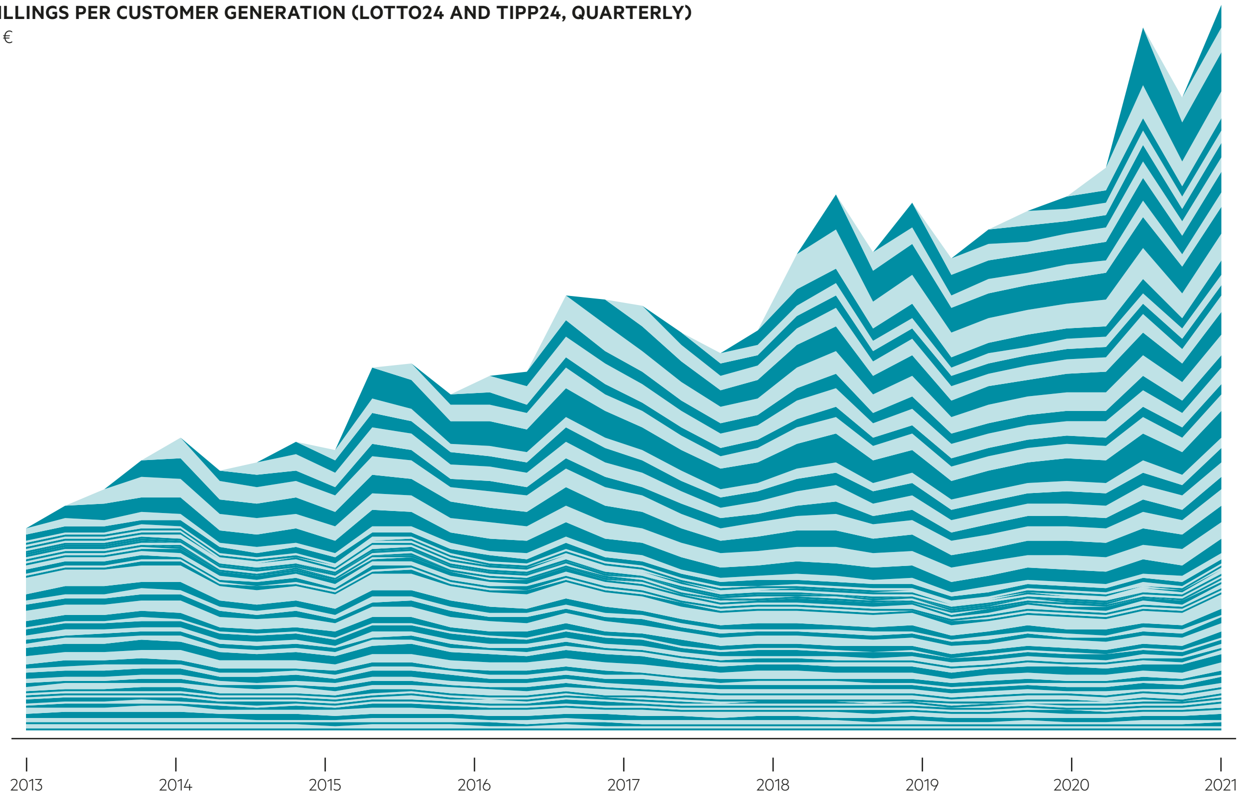
#### GERMANY

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

In this segment, we broker lottery products via the Internet (lotto24.de, tipp24.com) and receive brokerage commissions from the lottery operators. The winnings are also paid out by the lottery operators. We can therefore generate income without assuming the book-making risk of DLTB products ourselves. In addition to the LOTTO24 brand, we also transferred the former secondary lottery Tipp24 to the German brokerage business and have been brokering our customers' tickets to the lottery operators via the domains tipp24.de and tipp24.com since 15 October 2019. Amongst other things, we offer our customers the possibility to participate in the lottery products 'LOTTO 6aus49', 'Spiel 77', 'Super 6', 'Eurojackpot', 'GlücksSpirale', 'Keno', lotto clubs, instant lotteries and 'Deutsche Fernsehlotterie'. On behalf of, and in the name of, our customers, we enter into gaming agreements with the respective lottery operator. Our products are well-known on the market. In addition, we launched the new social lottery 'freiheit+' for the promotion of educational projects together with BildungsChancen gGmbH under the Tipp24 brand in March 2020. It has also been offered by the LOTTO24 brand since November 2020.

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

**BILLINGS PER CUSTOMER GENERATION (LOTTO24 AND TIPP24, QUARTERLY)**
in €




## OTHER

The Other segment comprises the remaining elements of our business, including our online lottery operation for the charitable organisation ONCE in Spain and our investments in early-stage start-ups under ZEAL Ventures.

ZEAL Ventures continues to pursue new lottery-related, start-up investments using a risk-managed portfolio approach. We have made several start-up investments, which we are closely monitoring and supporting where necessary while continuing to pursue additional investment opportunities. Our objective is to learn from these companies, generate profits and/or integrate exciting business ideas into the ZEAL Group.

As of 31 December 2020, ZEAL held stakes in

- Omaze, Inc. (2.3%) – an experience-based fundraising platform operating under the brand 'Omaze',
- Pick Media Limited (10.0%) – an advertising-funded, free-to-play, daily raffle operating under 'Pick My Postcode',
- Cloud Canyon Limited (20.0%) – operating under two brands, 'Odurn' – a fashion-based prize competition and 'Wshful' – a lottery syndicate manager,
- De Integro Limited (10.0%) – previously operating an early-stage travel-deal subscription business under 'The Dream Makers' brand,
- Furlong Gaming Limited (24.8%) – a prize competition based on horse racing operating under 'The Racehorse Lotto' brand, and
- TH Travel Limited (35.2%) – a travel and experience-based prize competition operating under the 'DAYMADE' brand.

# STRATEGY

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

- continue to expand our tried and trusted business models, especially in Germany and Spain,
- develop new lottery businesses, and
- discover new start-up ideas in order to tap further target groups, gain important market knowledge and to test new product ideas quickly and cheaply.

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

## NEW CUSTOMER MARKETING

**On course for growth**

By pooling the LOTTO24 and Tipp24 brands under one roof, we were able to draw on our full potential in 2020: the multi-brand strategy has been successful so far and led to a rise in new customer numbers with an increased online share of the total lottery market. In the representative online surveys of key brand data we have been conducting for many years (most recently a survey of 1,495 Internet users with an affinity for lotto in November 2020), LOTTO24 came second in unprompted brand awareness of online lottery providers with a share of 26% – directly behind the state lottery companies with their pooled platform lotto.de. Tipp24's share reached 11%. In prompted responses, our two brands scored as much as 55% (LOTTO24) and 42% (Tipp24). The aim of our marketing activities remains to further expand our market position and gain new customers for both the LOTTO24 and Tipp24 product offerings. Among other things, we use player protection messages to combat problematic gambling behaviour and, by combining our range of products and services with advertising in the market, steer sales away from unlicensed offerings and towards official offerings that are committed to the common good of society.

**Sales**

In online marketing, the consolidation of the commercial lottery brokerage market and the intensified efforts of regulatory and competition authorities to combat lottery offerings without permits in Germany continue to have a positive effect on advertising prices and the competitive situation. Online lottery sales were additionally boosted by above-average jackpots and possibly also by the corona crisis (COVID-19). This resulted in high new customer growth both for the overall market and, in particular, for us due to our additional marketing investments. In addition to channels such as search engine advertising (SEA) or social media advertising, we also acquire new customers via affiliates, banners, text ads, content ads and special advertising formats. The Apple App Store also provides a good opportunity to attract new customers. We reach new customer groups by cooperating with news sites or portals, for example. We incentivise our partners by offering them a share of the revenue generated by jointly acquired customers and/or supplying them with journalistic content. Good search engine optimisation (SEO) is also essential for our marketing success. As many of these measures are particularly effective when it comes to high jackpots, we align our marketing measures with the respective jackpot development.

**Mobile usage**

In 2020, we made progress with our mobile apps for both LOTTO24 and Tipp24. As a result, we now have a strong presence on the two major operating systems (iOS and Android) that almost entirely dominate the market. We completely revamped the apps for both brands and improved the user experience. Better usability, for example for visually impaired customers, also played a major role in the design process. Since a large proportion of both new and existing customers still reach us via their mobile devices, we regularly optimise our marketing channels, advertising formats and products – especially in terms of load speed and screen size – also for mobile use. Our iOS apps have been marketed via the Apple App Store for several years now. According to Statista, the Android operating system achieved a market share of around 74% for mobile internet use in Germany in September 2020. It automatically includes access to the Google Play Store, which currently offers around 3 million apps (Statista, February 2021). With reference to the permits granted to us, we have been trying to get the app approved for the Google distribution system since 2015. Until recently, however, Google had refused access to the Google Play Store for all gambling apps in Germany. With effect from 1 March 2021, Google amended its access guidelines and plans to allow specific gambling products, in particular apps for participation in permitted lotteries under certain conditions. The Google Play Store release would support the growing share of mobile use of LOTTO24 and Tipp24 and accelerate our growth.

## DATA SCIENCE

### Data-based decisions

Our strategy consists of providing potential and existing customers with the best possible offer at the right time via the channel that makes most sense for them. The use of data plays a decisive role in these efforts. After the merger of LOTTO24 and Tipp24 we were able to optimise the speed required for data management and the corresponding transfer to productive usability.

We use behaviour-based personalisation in our marketing activities for both new and existing customers in order to improve both the conversion of prospects into customers and customer loyalty. We are capable of measuring the success of all campaigns in real time and ranking the efficiency or contribution of each individual measure, thus ensuring the optimal use of our budget. All data is administered and used exclusively for the improvement of our own products and services in strict compliance with data protection regulations. An essential priority is to comply with German and international data protection standards (e.g. GDPR, ISO). In addition, we want to offer our customers full control over their personal data at all times in line with our own strict voluntary commitment – with extensive documentation requirements, the consolidation of data at just a few locations and by just a few people, as well as the immediate deletion of all personal data if requested by the customer.

Our data analysts are integrated into the product development and marketing teams in order to determine the effects of individual measures, to design A/B tests and to provide advice on the prioritisation of new ideas.

## PRODUCT DEVELOPMENT

### Re-thinking lotto

The German lottery market is highly regulated – the organisation of lotteries is largely subject to the federal states ('operator monopoly') – and not known for the dynamic pace of its innovation. However, classic products such as 'LOTTO 6aus49' remain highly popular – especially with target groups new to the idea of playing the lottery. Nevertheless, it is noticeable that customer needs with regard to winning experiences, game motivation and context are definitely changing. We are therefore continuously developing and integrating new offerings which aim to capture this spirit of the times – for example with innovative services or products – in order to achieve a competitive advantage in the market. We therefore opened up further federal states for scratch card products, integrated a 50-cent games offer between January and October 2020 (currently paused however due to regulatory uncertainties), launched 'Norddeutsche Klassenlotterie (NKL)' and 'Süddeutsche Klassenlotterie (SKL)' products on Tipp24 and made numerous improvements to typical usage patterns. In addition, together with BildungsChancen gGmbH, we developed the new charity lottery 'freiheit+' and launched it in March 2020, thereby adding a new product to our portfolio which provides further support for social projects.

### Product development

Our product development activities are preferably conducted with our own employees. These teams focus on a very specific area of the product range and accumulate customer-facing, professional and technical expertise to be able to work highly efficiently and with great innovative strength on behalf of our customers.

In order to create new or optimise existing product features, all departments and disciplines involved – such as product management, user experience and graphic design, software development, data analysis, quality assurance and operations – are organised in cross-functional teams at one location. Although the COVID-19 pandemic in 2020 meant working from home most of the time, our well-established teams equipped with the available technical and coordination facilities were largely unaffected by the restrictions.

## EXISTING CUSTOMER MARKETING AND CUSTOMER SUPPORT

### Existing customer marketing

Our business depends on inspiring customers over many years and thus ensuring their loyalty. Dialogue (Customer Relationship Management, CRM) plays a major role in these efforts. We therefore use extensive customer behaviour analyses in order to contact customers at the most appropriate time with relevant content. Thanks to the largely completed integration of LOTTO24 and Tipp24, we also achieved synergies in this field: for example, e-mail campaigns and other communication channels are regularly run on the same technology and coordinated by the same employees.

### Customer support

Especially when it comes to our product and service offerings which thrive on long-standing loyalty, the customer is at the centre: whether by phone, e-mail, social media, self-service (search-based FAQ sections) or chat – our customers can easily ask questions and receive the support they need as quickly as possible. Customer contacts are not evenly distributed throughout the year, but often peak on special occasions: new product releases, price and prize schedule adjustments for example of 'LOTTO 6aus49', high jackpots or mandatory pay-outs, as well as large-scale marketing campaigns. In order to be able to react more flexibly to the fluctuating call volumes, we clearly separated 1st level and 2nd level support in 2020 and partly outsourced it to experienced external partners.

It is our belief that the best support is one that is not needed in the first place. We therefore invest in good, product-specific user experiences, in the monitoring of payment processes, and in helping customers find answers to typical questions as quickly and easily as possible in self-service sections of our website.

## OWN PLATFORM TECHNOLOGY

### E-commerce platforms

We regard ourselves as a customer-centric technology Group. Every year, we process transactions worth over half a billion euros with correspondingly ambitious technology goals. As our business is strongly linked to the prevailing jackpot trend, we have to scale our technology very carefully – for example via self-scaling cloud solutions – optimise load times, upgrade caching solutions and at the same time expand our security systems. A dedicated in-house security team focuses exclusively on implementing mechanisms and compliance measures to nip potential attacks in the bud. In doing so, we pay attention to monitoring, situational prevention and the use of proven tools and technologies on the market.

### Platform consolidation

In 2020, we largely completed the planned technology merger of the LOTTO24 and Tipp24 platforms – including the most important milestone: in November 2020, LOTTO24 was successfully migrated to the ZEAL platform. The migration has gone according to plan. This now puts us in a position to make new features available globally and to bring them to the market much faster overall. Further partner implementations and support systems will follow in early 2021.

We also made consolidations with regard to infrastructure (data centres, technologies, database providers etc.) and thus reduced our technology costs.

## MANAGEMENT SYSTEM

### KEY FINANCIAL FIGURES

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

- **Billings** (stakes placed by customers, influenced both by the variety and attractiveness of our product portfolio and the efficiency of customer retention measures);
- **Revenue** (commission for brokered and remitted tickets/ stakes as well as additional/ticket fees[1]);
- **Adjusted EBITDA** (earnings before interest, taxes, depreciation, amortisation and non-recurring expenses represents the Group's operating earnings over a certain period of time).

[1] *Since 2020 also ticket fees for the charity lottery 'freiheit+'. On the other hand, revenue from secondary lottery betting and instant win games are no longer applicable.*

In order to simplify guidance, we have decided to no longer use gross margin, the number of new registered customers and CPL as key financial figures. These indicators will still be disclosed every quarter and are described in the following section 'Other Financial Indicators'.

| **Performance indicator[1]** | **2020** | 2019 |
|---|---|---|
| in € thousand | | |
| Billings | 652,756 | 466,650 |
| Revenue | 87,023 | 113,475 |
| Adjusted EBITDA | 12,744 | 29,350 |

[1] *The key performance indicators disclosed above have been significantly impacted by the Business Model Change and the takeover of LOTTO24. As a result, the 2019 figures only include seven and a half months of the results of LOTTO24 and the results from secondary lottery from 1 January 2019 to 15 October 2019. This makes a comparison with the 2020 figures difficult.*

Billings increased by 40% (€186,106 thousand) in 2020. This growth was primarily driven by the full-year recognition of LOTTO24 billings in the fiscal year 2020 (which explains 62% of the increase) as well as by the strong development of business due to the favourable jackpot situations.

Revenue fell by 23% (€26,452 thousand) in the reporting period, which is attributable to the closure of the secondary lottery business in October 2019.

As previously announced, we succeeded in further reducing the Group's costs – despite a significant increase in marketing expenses of €10,477 thousand. As a result, the decrease in adjusted EBITDA totalling €16,606 thousand, was significantly lower than the absolute decrease in revenue.

### OTHER FINANCIAL INDICATORS

The following financial indicators were previously used as key financial figures:

- **Gross margin** (ratio of revenue excl. intercompany revenue to billings);
- The number of **new registered customers** (customers who have successfully completed the registration process on our website. This number is disclosed after adjustment for multiple registrations and de-registrations);
- **CPL** (acquisition costs per new registered customer – not incl. CRM costs, customer service, etc.) which we use to monitor the efficiency of our marketing efforts.

These other financial indicators developed as follows in 2020:

At 12.3%, our gross margin in the Germany segment was above the prior-year level (2019[1]: 11.7%). Thanks to the high level of marketing investment to exploit the favourable market and jackpot environment, we gained 918 thousand new registered customers (2019[1]: 274 thousand) in the Germany segment with an attractive CPL of €27.79 (2019[1]: €33.64).

The average number of monthly active users (MAU)[2] in the Germany segment and average billings per user (ABPU)[3] amounted to 986 thousand and €55.07 respectively in 2020 (2019[1]: 640 thousand and €48.99).

The Group has entered into agreements with partners in Spain and Germany to provide IT and marketing services or the operation of their own online lottery services (B2B and business services). The results from these agreements are included in full in the statement of comprehensive income and the statement of financial position. However, for contractual reasons the results from the ONCE agreement are not included in billings, CPL or new registered customers.

LOTTO24 has two major partners for these integrated services with web.de and gmx.net. The billings from these services and the corresponding revenues are included in our figures but not disclosed separately for contractual reasons. Customers generated via these partners are therefore not included in the 'Number of new registered customers'.

*[1] The corresponding 2019 financial indicators have been restated to include only the business allocated to the Germany segment as explained in note 3 of the Consolidated Financial Statements. This only includes the brokerage business of the Lotto24 brand from its acquisition on 14 May 14 2019 and the Tipp24 brand from 15 October 2019 onwards (since the Business Model Change).*

*[2] MAU (monthly average active users is the number of unique users who have either purchased a ticket or participated in a draw in a given month (incl. free bets)) provides a measure of the Company's ability to retain and attract new customers.*

*[3] ABPU (average billings per user per month) is the average net billings received from each active customer in a given month. It is calculated by dividing monthly net billings by average monthly active users and provides a measure of the Company's ability to increase loyalty and value from our customers.*

## KEY NON-FINANCIAL FIGURES

In addition to our key financial figures, since the Business Model Change, we also use certain non-financial KPIs to help steer the business:

- We want to grow faster than our competitors. Our **market share of the online lottery segment** indicates the extent to which we are achieving this aim.
- **Customer satisfaction:** an important element of our business is the loyalty of our existing customers, whose satisfaction is measured by annual surveys.
- **Corporate Social Responsibility** is already a firm component of our business model: according to the German Association of State Lottery Companies (DLTB), approximately 40% of stakes are donated to good causes. In the case of social lotteries, like 'Deutsche Fernsehlotterie' and 'freiheit+', at least 47% of stakes are made available for good causes in the form of taxes and duties. In total, our brokerage activities under the LOTTO24 and Tipp24 brands provided €246 million of support for important social and community projects in fiscal year 2020 (2019: €94 million).

| **Performance indicator** | **2020** | 2019 | Outlook 2021 |
|---|---|---|---|
| Online market share[1] | 41% | 35% | Still growing |
| Customer satisfaction[2] | | | |
| – LOTTO24 | 81% | 84% | Still very high |
| – Tipp24 | 82% | 83% | Still very high |
| Corporate Social Responsibility (CSR)[3] | €246 million | €94 million | Still growing |

*[1] Source: German Association of State Lottery Companies (DLTB)/German Lottery Association (DLV). 2019: including LOTTO24 market share since acquisition in May 2019 and two and a half months of Tipp24's lottery brokerage activities following the Business Model Change.*

*[2] Source: Customer satisfaction survey in November and December 2019.*

*[3] 2020: including DLTB, 'Deutsche Fernsehlotterie' and since March 2020 'freiheit+'/2019: adjusted, including DLTB and 'Deutsche Fernsehlotterie' after completion of LOTTO24 takeover and Business Model Change.*

## RESEARCH AND DEVELOPMENT

As a customer-centric technology Group, we enhance our own core competencies while developing and operating our platform and central systems ourselves. In this way, we can align software with operational processes and customer needs as efficiently as possible. This covers the entire process chain from the online registration of our customers through the purchase of lottery products to the payment and transmission of tickets to the lottery companies, as well as the alignment of our own licensed lottery and game offerings and those not requiring licences.

In November 2020, the gaming operation of LOTTO24 was successfully migrated to the ZEAL Group platform. The move also involved examining the different functionalities of both platforms and analysing important differences in order to be able to offer 'the best of both worlds'. The apps were further consolidated and placed on a common technology platform. We also largely aligned the respective product portfolios for the website and app. In addition, we carried out further personalisation steps with regard to the fine-tuning of information displays and products for improved user-friendliness.

As part of the platform consolidation process, we continued to work on the modernisation of our software architecture. This now boasts a modern service orientation and has thus improved both the maintenance and independence of individual services. In addition to various optimisations and conversion improvements for our customer communication, we revamped and modernised the LOTTO24 user interface. In addition, we already took initial steps with regard to the revised State Treaty on Games of Chance ('Glücksspielstaatsvertrag' – GlüStV) to be introduced in July 2021. Last but not least, we worked on the interfaces that are to be rolled out in the first quarter of 2021, thus preparing for a possible integration of new B2B partners.

# ECONOMIC REPORT

## REGULATORY CONDITIONS

### STATE TREATY ON GAMES OF CHANCE

In Germany, the offering of lotteries via the Internet is regulated by the German State Treaty on Games of Chance ('Glücksspielstaatsvertrag' – GlüStV). The current version of the GlüStV came into force on 1 July 2012 and enables commercial gaming brokers such as LOTTO24 to offer state-licensed lottery products via the Internet. This State Treaty expires on 30 June 2021. On 12 March 2020, the heads of the German federal states agreed on a follow-up State Treaty. The State Treaty on Games of Chance 2021 (GlüStV 2021) includes, in comparison to the previous State Treaty, permit models for virtual slot machines (online games), sports betting (online and offline) and online poker, as well as a license model for online casinos. The announcement followed several months of political debate on the degree of market opening, especially for online games and online casinos. Germany's federal states are planning to establish a national gambling supervision authority. The previous and legally controversial Gambling Council of the federal states, which was used to bundle the decisions of the federal states, is to be dissolved in the medium term. Existing game and brokerage permits held by providers already active on the market, such as LOTTO24, will remain valid beyond 30 June 2021 for a further calendar year, however the provisions of the GlüStV 2021 will then already apply, for example, no separate advertising permit will be needed in future. The regulations of the GlüStV 2021 affect all game formats and are also relevant to commercial game brokerage. However, we do not expect the new legislation to have any significant impact on our business model. As expected, Germany's federal states are upholding their state operator monopoly for lotteries, with the exception of lotteries with low risk potential (charity lotteries). The specific regulations for commercial lottery brokerage remain largely unchanged. In addition, the previous requirement to strictly separate gaming formats on different websites will be abolished. Subject to certain restrictions, game providers will be permitted to offer different game formats via the same Internet domain in future. Moreover, the GlüStV 2021 makes a distinction in many areas (such as advertising, player identification, blacklists) between classic lottery offerings, with no more than two draws per week, and all other offerings, such as sports betting and online games, as well as online instant lotteries and 'Keno'. We expect that this will result in a greater degree of freedom for our current offering of classic lottery products. The heads of Germany's federal states initialled the draft law and submitted it to the European Commission as part of the notification procedure. This notification procedure ended on expiry of the standstill period on 18 September 2020. The GlüStV 2021 will come into force on 1 July 2021. It has no expiry date and can be terminated no sooner than 31 December 2028.

## NATIONWIDE BROKERAGE PERMIT

On 24 September 2012, LOTTO24 AG first received the permit allowing it to broker state lotteries via the Internet throughout Germany. With a decision dated 26 July 2017, the Ministry of the Interior for Lower Saxony granted an extension permit. It still contains restrictive and in part uncertain ancillary provisions and conditions such as strict regulations regarding the age verification of players and the duty to divide gaming revenue among all 16 state lottery companies (regionalisation) – based on the player's place of residence. With a decision dated 29 March 2018, the Ministry of the Interior for Lower Saxony granted LOTTO24 the first permit for the online brokerage of state-operated instant lotteries (scratch cards). It now applies to the federal states of Lower Saxony, Saxony, Hesse and North Rhine-Westphalia, where the state lottery companies have also received a corresponding game permit. As a result, more than 50% of the adult German population already have access to scratch cards on the Internet. We intend to apply for the corresponding supplements in the states of Schleswig-Holstein and Baden-Württemberg in the near future. In addition, LOTTO24 received a supplement to the existing brokerage permit on 8 February 2019 which enables it to broker tickets on the tipp24.de and tipp24.com domains to the state lottery companies via LOTTO24. Moreover, LOTTO24 was granted permission on 5 February 2020 to broker the charity lottery 'freiheit+' conducted by ZEAL. The permits will expire on 30 June 2021 and contain many restrictive and in part uncertain ancillary provisions and conditions. The current draft of the GlüStV 2021 provides for the extension of the existing licences of commercial gaming brokers until 30 June 2022. In a letter dated 21 January 2021, the relevant supervisory authority confirmed the extension by law of the licences granted. In this respect, we assume an uncomplicated extension of the permit in accordance with past administrative practice also for the period after 2022.

## ADVERTISING PERMIT

On 27 February 2019, the German authority responsible for advertising standards, the District Government of Dusseldorf, prolonged the advertising permit of LOTTO24 for the third time in a row. It is now valid until the GlüStV expires on 30 June 2021. The extension must always be requested and is not granted automatically. After receiving the extension, LOTTO24 continues to be authorised to advertise the online marketing of state lotteries throughout Germany via the Internet and TV, thus driving the further expansion of its customer base. The renewal of the advertising permit and the resulting legal certainty it continues to provide, form the basis for the planned expansion of the Group's business and market share. According to the regulations of the GlüStV 2021, there is no need for an additional advertising permit anymore. However, some of the previous restrictions continue to apply under the GlüStV 2021.

## LEGAL DISPUTES AND REGULATORY PROCEEDINGS

ZEAL Group entities are parties in various legal proceedings in connection with different aspects of gambling and tax law. LOTTO24 is conducting several court proceedings to review the legality of what it considers to be indeterminate and disproportionate restrictions of the permits. However, a final clarification of the fundamental questions is made more difficult by the two-year duration of the advertising permits. This short duration regularly leads to the loss of interest in legal protection as soon as new lawsuits against the subsequent permit become pending. In addition, the regulatory framework will change on 1 July 2021 when the new GlüStV comes into force, which is a further hurdle for the successful continuation of the proceedings. We currently do not expect any material effects on future business from the ongoing proceedings. The proceedings of Tipp24 Services Limited and myLotto24 Limited pending in the administrative courts have now all been settled amicably.

## MYLOTTO24 SUCCESSFULLY CONTESTS VAT ASSESSMENT AT FIRST INSTANCE

myLotto24 has successfully contested a VAT assessment in the fiscal court of Hanover relating to its former secondary lottery business in 2017. On 19 November 2019, the fiscal court of Hanover upheld myLotto24's claim against the VAT assessment. The relevant tax authority appealed the ruling. A decision by the Federal Fiscal Court is not expected before mid 2021 and probably not in the second half of 2021 either. In a previous decision on temporary relief, the fiscal court had dismissed myLotto24's application to order a stay of execution of VAT determined for the months May and June 2018 without the provision of security. The effect of the two decisions on the other affected periods from January 2015 to mid-October 2019 was therefore the subject of discussions between myLotto24 and the relevant tax authority in Hanover, with which myLotto24 reached an agreement in December 2019 in order to eliminate the risk of default charges being levied and significantly reduce the scope of any interest payments. In January 2020, myLotto24 paid a partial amount of around €54 million in VAT relating to its former secondary lottery business without acknowledging any legal obligation. ZEAL Network SE remains confident that the lawsuit brought by myLotto24 will be upheld in the final instance. In this case, the VAT paid plus interest (currently 6% p.a.) would be refunded to myLotto24.

## ECONOMIC CONDITIONS

### REVENUE GROWTH IN GERMAN LOTTERY MARKET

According to its own figures, DLTB revenue rose by 8.8% to over €7.9 billion in fiscal year 2020 (2019: almost €7.3 billion). With an increase of over 12%, the lottery 'LOTTO 6aus49' remained Germany's most popular lottery with revenue of €3.98 billion and over 50% of total stakes (2019: €3.54 billion). Despite the much stronger jackpot development than in the previous year with revenue growth of 18% to over €1.47 billion (2019: €1.25 billion), the European lottery 'Eurojackpot' remained the second most popular lottery product in 2020. Other DLTB products include 'Spiel 77', 'Sofortlotterien', 'Super 6', 'GlücksSpirale', 'Oddset', 'Keno', 'Bingo', 'Toto', 'Plus 5' and 'Sieger Chance'.

### LOTTO24 AND TIPP24 EXTEND MARKET LEADERSHIP

According to information of DLTB and the German Lottery Association ('Deutscher Lottoverband', DLV), online revenue of state lottery companies and legal private brokers has been steadily rising: starting at €35 million in 2012, revenue already reached €1,035 million in 2019 (incl. the full-year LOTTO24 billings as well as the Tipp24 billings following the Business Model Change on 15 October 2019) and rose further by around 53% to €1,587 million in fiscal year 2020. Online sales thus accounted for 20% of total German lottery sales in 2020 (2019: 14% mostly excl. Tipp24). Whereas stakes generated online by all state-owned companies together grew by 40% to almost €913 million (2019: €651 million), our official online lottery brokerage business (incl. charity lotteries) with the LOTTO24 and Tipp24 brands grew by 78% to €652 million (2019: €366 million, full-year LOTTO24 billings and Tipp24 billings following the Business Model Change on 15 October 2019). Consequently, we were able to expand our online market leadership with a market share of 41% (2019: 35%). Other lottery brokers achieved total online revenue of around €22 million (2019: €18 million).

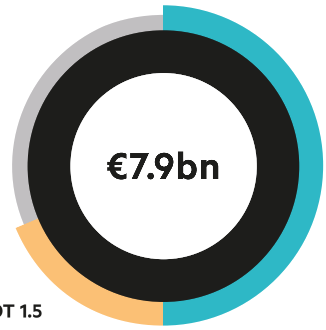
### HUGE POTENTIAL OF ONLINE SEGMENT

70.2 million adults live in Germany, of whom 29.7 million play lotto occasionally or regularly[1]. This corresponds to almost 42% of all adult Germans. In our latest survey of 1,495 Internet users with an affinity for lotto in November 2020, 41% of respondents confirmed that they had played lotto in the last six months. It is interesting to note that almost 50% of offline players surveyed – in other words, lotto players who still hand in their tickets at kiosks – can imagine playing lotto online in future. Translated to 29.7 million lotto players, this represents a market potential of 14.3 million potential online lotto players. Based on the total volume of the German lottery market (DLTB plus class lotteries, charity lotteries and other regulated lotteries) of around €9.0 billion[2], this corresponds to potential total online lottery revenue of €4.3 billion.

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

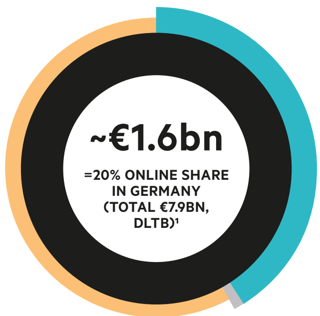
[2] Source: Goldmedia 'Glücksspielmarkt Deutschland 2020', June 2020)

**REVENUE SHARES DEUTSCHER LOTTO- UND TOTOBLOCK 2020**
in € billion



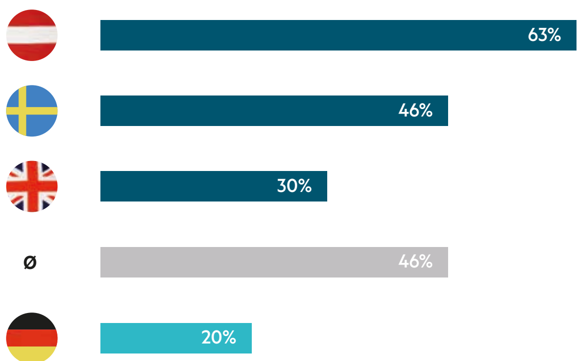

*[1] According to information of the German Association of State Lottery Companies ('Deutscher Lotto- und Totoblock, DLTB')*

**SHARE OF ONLINE MARKET 2020**




*[1] According to information of the German Association of State Lottery Companies ('Deutscher Lotto- und Totoblock, DLTB') and calculations of the German Lottery Association ('Deutscher Lottoverband, DLV')*

**MARKET POTENTIAL[1, 2]**



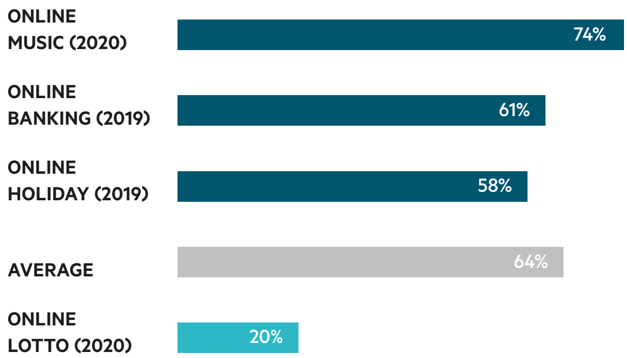

*[1] Source: La Fleur's 2020 European Lottery Abstract (based on figures for 2019) and German Association of State Lottery Companies (DLTB)/German Lottery Association (DLV) (based on figures for 2020).*

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

- As online lottery offerings were completely forbidden until mid 2012, we expect further strong revenue growth. Compared with foreign online lottery markets, which were less strictly regulated in the past, we expect above-average growth for Germany in the medium term.
- In 2019, the online share of the lottery market in Austria was 63%, in Sweden 46% and in the UK 30%[1]. The growing importance of e-commerce as a sales channel and mobile offerings are also strengthening this trend: in the first half of 2020, 74% of music was sold online[2], 61% of all banking was done online in 2019[3] and 58% of trips were booked online in 2019[4].

[1] *Source: La Fleur's 2020 European Lottery Abstract (based on figures for 2019)*
[2] *Source: BVMI Half-Year Report 2020*
[3] *Source: Eurostat, Statista*
[4] *Source: vir, 'Daten & Fakten zum Online-Reisemarkt 2020'*

**ONLINE MARKET SHARES[1]**




*Source: BVMI Half-Year Report 2020, Eurostat, Statista, vir, 'Daten & Fakten zum Online-Reisemarkt 2020'*

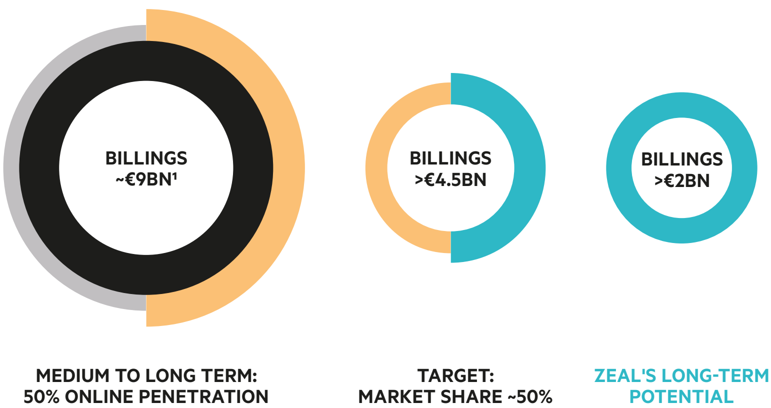
Based on a medium to long-term assumption of an online share of 50% of the total German lottery market (DLTB plus charity lotteries, GKL and other regulated lotteries) of €9.0 billion[1], this would also result in an online lottery market potential of €4.5 billion. As our objective is to further expand our own market share to 50% or more, our long-term billings potential would therefore lie beyond the €2 billion mark.

[1] *Source: Goldmedia 'Glücksspielmarkt Deutschland 2020', June 2020*

## ADVERTISING AND COMPETITION

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

**OUR VISION**




[1] *Source: Goldmedia 'Glücksspielmarkt Deutschland 2020', June 2020*

According to information of the relevant Ministry of the Interior for Lower Saxony, 16 private commercial gaming brokers had valid brokerage permits at the end of the reporting period – in addition to the state-owned companies. However, the advertising activities of our private competitors with permits in Germany were very modest in 2020.

The advertising pressure from secondary lottery providers with neither a German brokerage nor corresponding advertising permit has declined. This is due to both a stricter approach by the relevant regulatory authorities and competition law proceedings brought by certain state lottery companies.

## EXCEPTIONALLY STRONG JACKPOT DEVELOPMENT

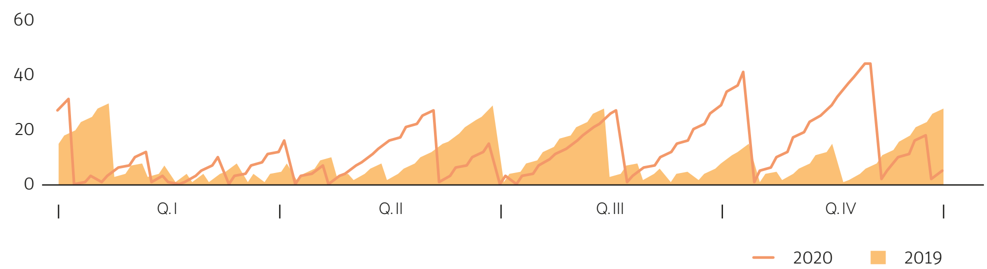
Jackpots are a major driver of our billings volume. We expect particularly strong increases in the activity rate and number of registered customers when potential players have greater expectations of exceptional winnings, in other words whenever there are large jackpots.

In 2020, the jackpot development of the various lotteries was exceptionally favourable for us: the average jackpot of the German lottery 'LOTTO 6aus49' in 2020 was around 40% higher than in the previous year and exceeded the €20 million mark a total of five times (2019: four times). The product change of DLTB in September 2020 – among other things, by raising the first prize category to €45 million and the billings-increasing price rise – had a positive effect, especially in the fourth quarter. The average jackpot of the European lottery 'Eurojackpot' was also 9% above the prior-year level and reached the €90 million mark six times in total (2019: four times), of which none were in the fourth quarter (2019: twice).

#### JACKPOT DEVELOPMENT LOTTO 6AUS49 AND EUROJACKPOT

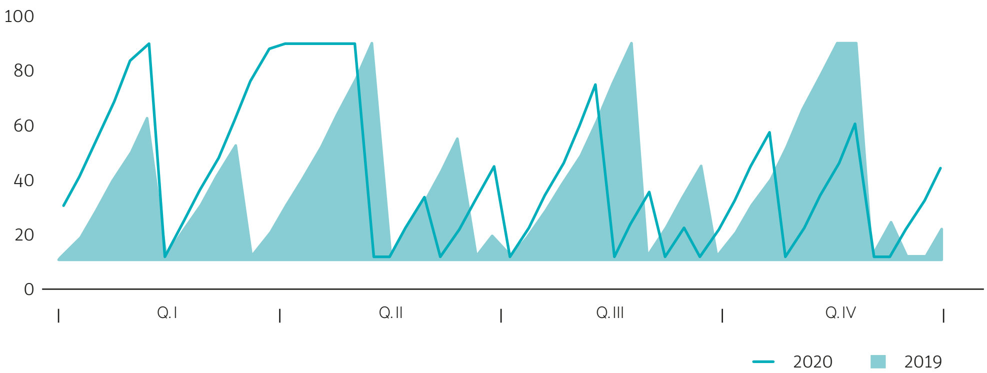
**LOTTO 6aus49**

in € million




**Eurojackpot**

in € million



# BUSINESS DEVELOPMENT

## GUIDANCE

Supported, among other things, by the exceptionally good jackpot development of the 'Eurojackpot' and 'LOTTO 6aus49' lotteries, the continued high marketing investments led to growth in key performance indicators that exceeded expectations, so that we updated our guidance in both July 2020 and October 2020 and even exceeded it in parts.

| GUIDANCE COMPARISON | Guidance (19.02.2020/20.07.2020/15.10.2020) | **2020** | 2019 |
|---|---|---|---|
| | | **Actual** | Actual |
| Billings (€ million) | 550–570/<br>590–610/<br>610–630 | 652.8<br>(+39.9%) | 466.7<br>(+58%) |
| Revenue (€ million) | 70–73/<br>76–79/<br>80–83 | 87.0 | 113.5 |
| Adjusted EBITDA (€ million) | 5–8/<br>7–10/<br>8–10 | 12.7 | 29.4 |
| Gross margin (Germany segment, %) | Around 12/<br>slightly above 12 | 12.3 | 11.7 |
| CPL (Germany segment, €) | Lower than previous year | 27.79 | 33.64 |
| New registered customers (Germany segment, thousand) | Nearly twice as many new customers/<br>around 800/<br>around 900 | 918 | 274 |

POSITION

## EARNINGS POSITION

The following table details the Consolidated Income Statement of ZEAL Group for the fiscal year ended 31 December:

| | **2020** | 2019 |
|---|---|---|
| in € thousand | | |
| Revenue | 87,023 | 113,475 |
| Other operating income | 3,633 | 8,096 |
| Personnel expenses | (21,870) | (22,964) |
| Other operating expenses | (56,292) | (68,963) |
| Marketing expenses | (32,183) | (21,706) |
| Direct cost of operations | (10,840) | (29,311) |
| Indirect operating expenses | (13,269) | (17,946) |
| Exchange rate differences | 250 | (294) |
| **Adjusted EBITDA** | **12,744** | **29,350** |
| Non-recurring expenses and income | 4,587 | (11,438) |
| **EBITDA** | **17,331** | **17,912** |
| Amortisation and depreciation | (11,956) | (8,845) |
| **Statutory EBIT** | **5,375** | **9,067** |
| Financial result | 2,694 | (727) |
| Share in loss from associate | (213) | (12) |
| **Profit for the period before taxes** | **7,856** | **8,328** |
| Income taxes | 37 | (6,610) |
| **Net profit for the period** | **7,893** | **1,718** |

Following the takeover of LOTTO24 AG in May 2019 and the termination of the secondary lottery business in October 2019, the fiscal year 2020 was dominated by the expansion of the online lottery brokerage business and also influenced by the launch of the charity lottery 'freiheit+'.

## REVENUE AND OTHER OPERATING INCOME

Our revenue from commercial gaming brokerage increased in 2020 so that despite the secondary and instant lotteries (2019: 68% of total revenue; 2020: nil), total revenue decreased by only 23% (€26,452 thousand) compared to 2019.

The decline in other operating income of 55% (€4,463 thousand) in 2020 compared to 2019 is due to the absence of reinsurance income (2019: €4,849 thousand; 2020: nil) as a result of the termination of the secondary lottery business.

## EXPENSES

In 2020, personnel costs decreased by 5% compared to 2019, while the average number of full-time equivalent employees (FTEs excluding students and temps) fell by 20% (from 200 to 161). The decrease in average headcount is mainly due to the Group's restructuring as part of the LOTTO24 integration process. On the other hand, the provisions for long-term bonus payments grew because of the increased price of the ZEAL share as at 31 December 2020 and have partially offset the effect of the decrease in the average number of employees on personnel costs.

Other operating expenses decreased in total by 18% (€12,671 thousand):

- Marketing expenses increased by 48% (€10,477 thousand) in 2020 compared to 2019, primarily driven by additional marketing investments following the Business Model Change and the improved regulatory environment for online lottery brokers. In line with its strategy, this enables the Group to grow more strongly and rapidly than the market, to strengthen its marketing activities and at the same time to reduce CPL compared to the secondary lottery business and gain new registered customers. The increase in marketing expenses is also partly due to the fact that the fiscal year 2020 includes marketing expenses of both the Tipp24 and LOTTO24 brands, whereas the comparative period does not consider marketing expenses of LOTTO24 prior to the takeover in May 2019.
- Decrease in direct operating expenses of 63% (€18,471 thousand), mainly due to the Business Model Change. Following the closure of the Group's secondary lottery business, it no longer incurs the costs of covering bookmaking risks. By contrast, there was an increase in costs relating to transaction traffic and payment processing. As a result of the Business Model Change, non-deductible VAT also decreased by €1,054 thousand (to €83 thousand).
- Decrease in indirect operating expenses of 26% (€4,677 thousand) mainly due to a decline in advisory costs and travel expenses of €2,538 thousand and €683 thousand respectively. The restrictions in connection with the COVID-19 crisis led to a significant absence of travel, entertainment and other office expenses. The remaining movement is due to various immaterial decreases in other line items.

## ADJUSTED EBITDA

Adjusted EBITDA in 2020 amounted to €12,744 thousand (2019: €29,350 thousand), corresponding to a decrease of €16,606 thousand compared to the prior year. The decline is primarily driven by the Business Model Change, as the high-revenue but risk-bearing secondary lottery business was partially included in 2019. Moreover, the ZEAL Group invested heavily in customer acquisition, thus enabling stronger growth in the following years.

## NON-RECURRING EXPENSES AND INCOME

The Group had income of €4,587 thousand (2019: expenses of €11,438 thousand) which has been classified as non-recurring expenses and income due to its irregular nature. This income is mainly due to a net repayment of stamp duty amounting to €3,656 thousand. In fiscal year 2014, the ZEAL Group had paid this amount as stamp duty reserve tax to the UK tax authority HMRC in connection with the relocation of the registered office of ZEAL Network SE to London in 2014. Following various court rulings, this amount was deemed to be unfounded and was consequently recovered from HMRC in 2020. The remaining income relates to reversals of provisions for legal costs (€200 thousand) and for restructuring costs (€731 thousand) recognised in previous years.

Non-recurring expenses incurred in 2019 mainly related to the takeover of LOTTO24 (transaction costs of €1,950 thousand) and restructuring measures (€9,388 thousand), as well as a provision of €600 thousand for legal risks. There was an opposing effect from the release of provisions amounting to €500 thousand recognised on 31 December 2018 in connection with the closure of the consumer-facing brokerage business of Ventura24 S.L.U, which were no longer required.

## AMORTISATION AND DEPRECIATION

In the fiscal year 2020, amortisation and depreciation rose by 35% (€3,111 thousand). The increase was driven by the full-year amortisation in 2020 of intangible assets recognised following the LOTTO24 takeover, compared to only seven and a half months in the comparative period. In addition, the former LOTTO24 platform was written down in full (by €1,475 thousand) following the successful migration of LOTTO24 customers to the joint Group platform.

## FINANCIAL RESULT

2020 net financial income was €2,694 thousand (2019: expense of €727 thousand), corresponding to an increase of €3,421 thousand compared to 2019. This rise is primarily driven by the following factors:

- Calculated interest income of €2,154 thousand on the advance payment of January 2020 on the disputed VAT liability of previous years;
- Income of €1,209 thousand from the sub-letting of offices in London and Hamburg, which began in 2020.

## TAX

The expected tax charge based on the average tax rate of 32.28% (2019: 21.44%) is €2,536 thousand (2019: €1,786 thousand) compared to the actual tax income recorded of €37 thousand (2019: charge of €6,610 thousand). The most significant drivers of the tax charge being higher than the effective rate are described below:

- A tax expense or non-taxable income of €1,956 thousand (2019: tax expense of €1,899 thousand) on non-deductible expenses and adjustments in respect of foreign tax rates.
- A tax expense of €532 thousand (2019: tax credit of €225 thousand) in respect of adjustments relating to the prior years.
- Expense of €210 thousand (2019: tax credit of €4,976 thousand) on tax losses carried forward for which no deferred tax asset was recognised.
- Changes in Deferred Tax Assets and Liabilities of €162 thousand, resulting mainly from tax losses carried forward, expected to be used up in the coming years.

## ANALYSIS OF THE GROUP'S OPERATING SEGMENTS

| SEGMENT REPORTING 'GERMANY' | 2020 | 2019 |
|---|---|---|
| in € thousand | | |
| Revenue | 80,005 | 29,319 |
| Other operating income | 3,642 | 1,090 |
| Personnel expenses | (20,258) | (8,819) |
| Other operating expenses and exchange rate differences | (51,639) | (19,586) |
| Non-recurring income and expenses | 4,587 | (3,756) |
| **EBITDA** | **16,337** | **(1,752)** |

This operating segment comprises the results of the Group's online lottery brokerage business in Germany. It also includes the results of the charity lottery 'freiheit+' in Germany. Its cost base includes direct operational costs as well as the Group's shared costs. The increase in revenue of 158% (€48,956 thousand) mainly relates to the positive development of the businesses and to the fact that the comparative period includes the online lottery brokerage business of the LOTTO24 brand only from its acquisition on 14 May 2019 and the Tipp24 brand from 15 October 2019 onwards (since the Business Model Change).

| SEGMENT REPORTING 'OTHER' | 2020 | 2019 | thereof 'lottery betting' | thereof 'other' |
|---|---|---|---|---|
| in € thousand | | | | |
| Revenue | 7,018 | 84,156 | 79,323 | 4,833 |
| Other operating income | (9) | 7,006 | 6,525 | 481 |
| Personnel expenses | (1,612) | (14,145) | (11,540) | (2,605) |
| Other operating expenses and exchange rate differences | (4,403) | (49,871) | (45,396) | (4,275) |
| Non-recurring income and expenses | – | (7,662) | (8,002) | 320 |
| **EBITDA** | **994** | **19,664** | **20,910** | **(1,246)** |

The Other segment comprises the remaining elements of our businesses including our online lottery operation for the charitable organisation ONCE and our investments in early-stage start-ups under ZEAL Ventures.

In 2019, this segment also included the results of our lottery betting operations (secondary lottery) and the sale of instant win games. Following the Business Model Change on 15 October, this business segment is no longer applicable.

The increase in revenue of 45% (€2,185 thousand, without lottery betting) mainly relates to games and infrastructures agreements entered into during the year 2019 as well as the growth of the ONCE business.

# FINANCIAL POSITION

## PRINCIPLES AND OBJECTIVES OF CAPITAL MANAGEMENT

Prior to the Business Model Change in 2019, ZEAL operated a decentralised capital management system. While the Management Board of ZEAL took all major decisions concerning the financial structure of the Lottovate segment, capital management activities of the Lottery Betting segment were handled by myLotto24 Limited – with the exception of Tipp24 Services Limited (Tipp24), which operated its own capital management system. Following the Business Model Change, the separation was ended.

Since the Business Model Change, capital management has been operated centrally from the Group's registered office in Hamburg. Only operating capital management for the online-brokerage business is handled by the subsidiary LOTTO24.

The principles and objectives of the Group's capital management are as follows (the risks to which ZEAL is exposed are described in the risk report on pages 49 to 53):

- 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 over-riding objective of our investment strategy is to preserve capital – even at the expense of expected returns.
- Equity in excess of those funds required to ensure the Group's stable financial position is to be used for investments in line with our growth strategy. In the medium-term, it is possible that ZEAL may also leverage its financial position by means of interest-bearing debt.
- Further information can be found in note 30 to the Consolidated Financial Statements.

In 2020, ZEAL's equity decreased in total by €10,158 thousand to €395,562 thousand. ZEAL distributed a dividend of €17,887 thousand or €0.80 per share in 2020 for the year 2019. Depending on the economic development of the ZEAL Group, we have set ourselves the target of proposing a dividend of € 1.00 per share to the shareholders at the Annual General Meeting in 2022, in line with the published dividend policy. For details of the Company's dividend policy see page 20. No dividend was paid in 2019.

While none of the segments currently holds any interest bearing external debt, in the medium-term, ZEAL may leverage its financial position to secure funding to finance growth or future acquisitions. On 26 November 2020, ZEAL Network and LOTTO24 AG signed a credit facility agreement with the Commerzbank AG for an amount of €7,000 thousand. As at 31 December 2020, this facility had not been drawn down.

## INVESTMENT ANALYSIS

In the reporting period, the Group invested €641 thousand (2019: €104 thousand) in software and hardware needed for operations, as well as in apps, IT data centre and workplace equipment, and business intelligence systems.

## LIQUIDITY ANALYSIS

| in € thousand | **2020** | 2019 |
|---|---|---|
| **Key cash flows** | | |
| Cash generated from operating activities | 5,371 | 5,297 |
| Cash generated from investing activities | (51,879) | 5,058 |
| Cash used in financing activities | (20,711) | (2,962) |
| **Changes in cash, pledged cash and cash equivalents** | **(67,219)** | **7,393** |
| Cash, pledged cash and cash equivalents at the beginning of the year[1] | 153,280 | 145,887 |
| **Cash, pledged cash and cash equivalents at the end of the year** | **86,061** | **153,280** |

*[1] In line with IFRS, for the purposes of the Statement of Cash Flows, cash equivalents at the beginning of the period do not include €2,925 thousand invested in equity funds (2019: nil).*

Cash used in operating activities amounted to € 5,371 thousand in 2020 (2019: €5,297 thousand). This cash inflow is mainly driven by the positive EBITDA of €17,331 thousand. This was partially offset by the tax payment of €6,914 thousand (mainly for the previous year) and the payments of employee severance amounting to €4,363 thousand.

Cash used in investing activities in 2020 was €51,879 thousand (2019: inflow of €5,241 thousand). This cash outflow was primarily due to the interim VAT payment of €54,316 thousand made in January 2020. The payment was made – despite the first instance ruling in favour of myLotto24 (a wholly owned subsidiary of ZEAL Network SE) and without acknowledging any legal obligation – to significantly reduce the amount of potential interest payments and to eliminate the risk of potential fines for late payment of taxes. Further outflows are €377 thousand invested in the associates Furlong Gaming Limited and TH Travel Limited (2019: €527 thousand), €828 thousand (2019: €514 thousand) paid to acquire non-controlling interests of LOTTO24 AG and Investments in tangible and intangible assets amounting to €641 thousand (2019: €104 thousand). This is partially offset by a cash inflow from the sale of €2,925 thousand (2019: cash outflow of €2,975 thousand) of equity funds which were converted into cash on sale as well as cash inflows from subleases of €1,006 thousand.

Cash used in financing activities in 2020 amounted to €20,711 thousand (2019: €2,962 thousand). The outflow relates to a dividend payment of €17,887 thousand (2019: nil) and lease payments of €2,983 thousand (2019: €2,312 thousand) made for the Group's offices in London and Hamburg.

As of 31 December 2020, there was a corresponding decline in cash, pledged cash and cash equivalents of €67,219 thousand to €86,061 thousand (31 December 2019: €153,280 thousand).

## ASSET POSITION

Total non-current assets increased by €42,767 thousand from €347,135 thousand at 31 December 2019 to €389,902 thousand at 31 December 2020. The increase is primarily driven by the interim VAT payment of €54,316 thousand in January 2020 (see further details in note 17 to the Consolidated Financial Statements). This was offset by the amortisation or impairment of intangible assets from the LOTTO24 takeover and right of use assets by €11,956 thousand.

Current assets are primarily comprised of cash, cash equivalents and pledged cash of €86,061 thousand (2019: €153,280 thousand) and trade receivables and other current financial assets of €15,761 thousand (2019: €115,860 thousand).

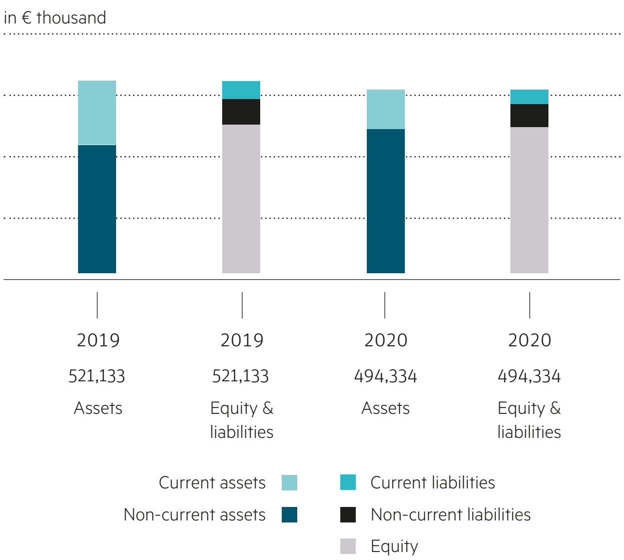
### LIABILITIES

Total liabilities decreased from €115,408 thousand at 31 December 2019 to €98,772 thousand at 31 December 2020. The decrease was mainly due to the decline of current and deferred tax liabilities of €7,930 thousand and current provisions of €4,298 thousand.

### EQUITY

Equity has decreased by €10,163 thousand to €395,562 thousand as at 31 December 2020 (2019: €405,725 thousand). This movement is primarily driven by the dividend payment of €17,887 thousand offset by the net profit of €7,893 thousand.

#### BALANCE SHEET STRUCTURE



### ASSETS NOT RECOGNISED

ZEAL has not recognised any internally generated assets in its Consolidated Financial Statements. Employee costs incurred in 2019 and 2020 for the 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 2020. We hold a number of bank guarantee facilities totalling €3,139 thousand (2019: €4,484 thousand). These guarantees are required to obtain certain licences and to secure future obligations under rental agreements for office space.

## OVERALL ASSESSMENT

The full-year recognition of LOTTO24 business in the fiscal year 2020 and the strong business performance driven by a favourable jackpot trend contributed to significant growth in overall billings.

However, the termination of the secondary lottery business in October 2019 led to a decline in revenue in the fiscal year 2020 as expected. As previously reported we nevertheless succeeded in further reducing the Group's costs – despite an increase in marketing expenses of €10,477 thousand. As a result, adjusted EBITDA declined by just €16,606 thousand, while revenue was down by €26,452 thousand.

# REPORT ON EXPECTED DEVELOPMENTS AND ASSOCIATED MATERIAL OPPORTUNITIES AND RISKS

## RISK REPORT

Our business models and ventures are influenced by a number of factors – these include the legal and macroeconomic conditions, the retention of relevant local permits, and business or other contractual relationships. On this basis, we make assumptions about our development and profitability, the level of billings and revenue, cost items, staffing, funding and key balance sheet items which may prove to be false or incomplete. There is no guarantee that ZEAL will be able to succeed in this market in the long term. In particular, our continued growth depends on whether, and to what extent, we are able to gain new customers for ZEAL's products, to expand our current offerings, to add further products to the range and to establish new sales channels.

In the worst case, the business model may prove to be unprofitable or unfeasible. This may lead to impairment especially of capitalised non-current assets, as well as to other significant negative effects on the financial position and performance of ZEAL.

### RISK AND COMPLIANCE MANAGEMENT

The Management Board of ZEAL Network SE has expanded the existing risk management system by including an integrated risk and compliance management system. To this end, we carefully monitor our market and competitive environment while analysing the identified risks and compliance fields in the course of regular risk management workshops. The insights this provides are used to swiftly introduce measures which will ensure the long-term and sustainable success of the Group and prevent infringements of compliance regulations.

ZEAL Network SE is exposed to the typical sector and market risks associated with the online lottery sector. We define risks as being those events or developments which may have a negative impact on the Group or the attainment of our corporate objectives. In order to counter such risks, we have established a modern and comprehensive risk management system.

We monitor operating risks by means of regular risk management workshops for the Management Board and other executives and by constantly reviewing the relevant financial and non-financial performance indicators – whereby the monitoring frequency, designated controlling responsibility, rules of procedure and emergency procedures for defined deviations from target values are stipulated for each key performance indicator. Furthermore, we regularly monitor the adjustments and updates made to the security systems and processes of our service providers.

We regularly evaluate the regulatory conditions, also with the aid of legal advisors, and can thus react swiftly and appropriately.

We are convinced that our early warning and risk management system is well suited to quickly recognise and deal with dangers for ZEAL resulting from possible risks. The risk early recognition system has been formally documented and is regularly monitored and adapted. Should one or more of the following risks occur, it may materially impact our business and have significant adverse effects on the financial position and performance of ZEAL Network SE.

ZEAL's compliance management system consists of a large number of in-house measures and processes. It serves our objective of acting in accordance with ethical principles and abiding by all applicable laws, internal regulations and voluntary commitments. In addition to the general compliance fields, we pay particular attention to complying with the special compliance fields of gambling regulation, data privacy, IT security, competition, corruption, occupational health and safety, working conditions, and general non-discrimination.

These special requirements are binding constituents of our Code of Conduct. All executives are required to live an exemplary risk culture through their own attitudes and actions which sets a tone from the top and encourages all employees to comply with the applicable regulations and strictly avoid any violations. Executives whose areas of responsibility have contact with compliance fields meet regularly in workshops to analyse and assess possible risks and determine appropriate measures. The Compliance Officer is responsible for the compliance management system and the coordination of the compliance workshops and reports directly to the Management Board.

We constantly review the effectiveness of our compliance management system and adapt it to developments, changed risks and new legal requirements. This ensures that its effectiveness and efficiency is continuously improved. We systematically and regularly minimise compliance risks across all business areas. The results of this analysis serve as the basis for our risk management.

In order to identify risks at an early stage, it is important that any fraud, misconduct or wrongdoing by workers or officers of the management organisation is reported and properly dealt with. A transparent, open and diverse organisational culture is vital in ensuring that individuals are willing to openly address misconduct or risks. ZEAL encourages a transparent, open and diverse corporate culture where people feel they can 'Think Brave' and raise concerns. The organisation therefore encourages all individuals to raise any concerns that they may have about the conduct of others in the business or the way in which the business is run. ZEAL has set up a whistleblowing system which employees or external whistleblowers can use to report compliance violations to ZEAL. The report can also be made anonymously.

The ZEAL Group processes the data of several million customers. As a leading online provider of state lottery products and a service provider for the operation of lotteries, the security and data protection of our customers' personal data is our top priority. ZEAL strictly adheres to the legal requirements, in particular the General Data Protection Regulation (GDPR). An in-house specialist department is responsible for ensuring compliance with IT security. Data protection requirements are continuously monitored both internally and by an external data protection officer. The legal department and IT security department work closely together to ensure data protection and IT security. ZEAL operates an Information Security Management System (ISMS) and its essential data processing systems are certified according to ISO 27001. The ISMS defines and regulates the processing of personal data as well as the security of business-critical information, access controls and business continuity requirements. It is based on various guidelines that are implemented in the respective departments. Best practices and standards are continuously developed and integrated into the relevant processes.

## MARKET AND SECTOR RISKS

**Stronger competition**

It cannot be ruled out that competition within the gambling sector in Germany will increase in the medium term. Following the implementation of the new GlüStV 2021, international sports betting and casino providers could enter the lottery brokerage business. At the same time, an expanded range of alternative gambling services could lead to a decline in lottery revenues. However, the increased enforcement of legal restrictions in recent years has put the secondary lottery business model under considerable pressure. We therefore expect weaker competition from foreign secondary lottery providers in the future. The medium-term success of the secondary lottery business model has therefore been fundamentally challenged and its further growth will be hampered. It will become increasingly difficult for the remaining providers to enter into successful advertising collaborations in order to ensure further growth. But, providers of secondary lotteries that have not been permitted to date could discontinue their current business model and therefore seek to be granted a licence for lottery brokerage in Germany.

**Default of strategic service providers**

Strategically relevant service providers such as Amazon, Apple, Google or Facebook could refuse to cooperate with gambling providers or terminate existing agreements due to a shift in their internal corporate policies. There is therefore a risk that those companies cease to provide their services to us. In consequence LOTTO24's and Tipp24's advertising or relevant use of cloud services would be subject to significant limitations, which may result in a significant reduction of revenues and new customer figures.

### Absence of unusually high lottery jackpots

Jackpots occur by chance due to certain conditions during lottery draws. It cannot be excluded, therefore, that there will be no such high lottery jackpots over a longer period of time. This could in particular lead to lower revenue and new customer figures due to a reduced interest to participate in lotteries.

## LEGAL RISKS FROM THE REGULATORY DEVELOPMENT

### Future development of legal situation in Germany remains uncertain

We have already reported on the general legal conditions and the resulting possible uncertainties in the section Legal Conditions. As a result of the legal conditions, which still remain uncertain in significant areas even under the new state treaty, the following risks may endanger the Group's future survival in general:

In Germany, the online distribution of state lotteries is only possible if the relevant brokerage and advertising permits have been granted. We have received these permits, which are regularly limited in time and subject to revocation. We assume that future permits will also contain corresponding regulations. It is unlikely, but cannot be excluded, that the brokerage or advertising permit may be withdrawn or not prolonged. Such a revocation or non-prolongation would significantly impede or even prevent the continued operation and expansion of business activities.

Due to the variety of indeterminate legal bases and the related issue of ancillary permit provisions, there is still considerable legal uncertainty. The enforcement of the existing rules by the relevant regulatory authorities is often difficult to predict. Due to the considerable discretionary powers of the authorities and a lack of clear permit criteria, there is no effective temporary legal protection against enforceable regulatory measures. As a result, enforceable restrictions of our offerings introduced by the authorities must initially be observed – despite requests for temporary legal protection. This may lead to a temporary or permanent decline in revenue and new customer figures.

### Future development of regulatory markets

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

## TAX RISKS

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

### Uncertainty relating to the tax environment in Germany

Due to the changes in German VAT legislation introduced on 1 January 2015, there is no final legal certainty as to whether certain services provided by the myLotto24 Sub-Group in Germany until 15 October 2019 are subject to VAT and around 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 since 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) have since been taxable in the Member State in which the recipient is established rather than i n the supplier's country of establishment.

### Uncertainty relating to the tax environment in Austria

In Austria, there are two separate legal systems for the taxation of gambling services. It is possible that the services provided by myLotto24 until October 2019 could be deemed taxable in Austria under these laws. The co-existence of the two laws leads to uncertainty in respect to the delimitation of the tax base. For games of chance, a taxation of 40% of gross gaming revenue could be applicable, whereas betting is currently only taxed at 4% of the gaming stakes.

## OPERATING RISKS

### Risks from gaming operations

- Dependency on complex IT systems: We are dependent on the use of automated processes for handling gaming agreements. Despite our extensive security provisions currently in place, the processing of the gaming agreements may be materially impacted by breakdowns of or disruptions to the IT systems. This may result from the destruction of hardware, system crashes, software problems, virus attacks, and the intrusion of unauthorised persons on the system or similar disruptions, and particularly the automated generation of mass mailing requests on a server via the Internet with the aim of significantly limiting its availability by overloading (denial of service attacks). Any adverse effect could, depending on its extent, result in damage to our reputation and financial losses.

- Data abuse by unauthorised persons: In the course of the registration process, our customers provide us with their personal details which are stored electronically and can be viewed by the customer on our website via the respective player account section. We have taken exhaustive steps to secure the data we store, which are regularly checked by independent security experts and continually adapted to state-of-the-art requirements. Despite these high security precautions, it cannot be fully excluded that unauthorised persons illegally gain access to our customer database or the customer database of our partners. This may lead to loss of revenue, damage claim obligations and considerable damage to our assets.
- Cooperation with external service providers: For the processing of our business, we depend on the cooperation with external service providers who have the specialist know-how and technologies. This applies to data and voice communication, procurement, installation, ongoing development, updating and maintaining hardware and software, data centre services, payment processing, text messaging and emailing. There is a possibility that one or more of the external service providers we use does not render the services, or not on time or not without errors. It is therefore possible that we may be unable to provide our own services on time or without error due to errors or oversights of the external service providers we have commissioned. This may lead to loss of income, damage claim obligations and considerable damage to our reputation.

**Jackpot risk**

We have introduced the charity lottery 'freiheit+' in Germany and, as executor, bear the economic risk of profit payment obligations to 'freiheit+' customers. There is a risk that we will not have sufficient funds from gaming operations to make these payments. In order to mitigate this risk, we have taken out insurance to cover the largest pay-out risks.

**Risks in connection with the corona crisis**

The spread of the coronavirus and existing restrictions on public life have created significant risks for global economic growth. In particular, the significant reduction in consumer spending may also have a substantial indirect impact on e-commerce services. A possible future shutdown of shops, which may also affect lottery retailers, could lead to a significant reduction in lottery sales of state lottery companies. As a consequence, lower jackpots could also lead to a lower volume of lottery sales for online lottery brokers. Overall, continuing restrictions due to the coronavirus may have a negative impact on our future financial position and performance.

**Counterparty default**

ZEAL frequently holds significant cash balances on deposit with financial institutions or has it invested on a short-term basis. These deposits, cash equivalents and other short-term equity funds and other contractual arrangements give rise to credit risks on amounts due from counterparties, including financial institutions. ZEAL may experience write-downs or severe delays in payments by counterparties. The financial failure of certain financial institutions where ZEAL holds balances could lead to a partial or complete loss of its deposits. Similarly, the collapse of individual issuers of cash equivalents may lead to the partial or complete loss of these cash equivalents.

# OPPORTUNITY REPORT

## INCREASING DIGITISATION OF MEDIA USAGE AND COMMERCE

Media consumption and commerce in Germany is becoming increasingly digital from year to year: customers are switching from print to Internet media, and from linear TV to video-on-demand services available on various devices. This change gives us the opportunity to benefit from the digital trend and possibly tap new marketing channels which will accelerate our growth by enabling easier access to our product offerings.

## UNUSUALLY HIGH LOTTERY JACKPOTS

Jackpots arise by chance on the basis of certain lottery draw events. Based on our experience, we expect particularly strong customer growth, as well as an increase in billings of our registered customers, in times of high jackpots. A higher frequency of large jackpots (>€20 million) or record jackpot amounts (>€35 million) may lead to rising customer growth.

## OPPORTUNITIES IN CONNECTION WITH THE CORONA CRISIS

The continuing short-term restrictions on public life to combat the coronavirus may lead to further sales growth for e-commerce business models. During lockdown phases, a large part of the population stays at home in line with the prevailing restrictions and recommendations. It is also possible that entertainment services, especially online gaming and lottery services, will continue to be used more. As a result, lottery revenue may also be higher for online lottery brokers in 2021 and have a positive impact on our future financial position and performance.

## ASSESSMENT OF THE RISKS AND OPPORTUNITIES

We believe that the probability of the above mentioned risks occurring varies and regard the overall risk position as moderate. We regard the likelihood of risks that could jeopardise the continued existence of the Group as small. Moreover, in the case of legal risks, we would exhaust the existing legal protection options. We are not aware of any other risks which might endanger the Group's continued existence. Overall, we believe that the opportunities that the Group has significantly outweigh the risks that we face.

## FEATURES OF THE ACCOUNTING-RELATED INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

Our definition of an accounting-related internal control system (ICS) and risk management system corresponds to that of the Institute of Public Auditors in Germany ('Institut der Wirtschaftsprüfer in Deutschland e.V.'), Dusseldorf, Germany. The Management Board has the responsibility to define the scope and structure of the ICS at its own discretion.

The primary objective of the accounting-related ICS is to avoid the risk of material misstatements in accounting, to detect substantially incorrect valuations and to ensure compliance with the relevant regulations. Irrespective of its specific structure, however, an ICS cannot provide absolute assurance that these objectives will be achieved.

By means of defined organisational, control and monitoring structures, the accounting-related ICS of ZEAL ensures the complete recording of group-related matters and their proper presentation in the Consolidated Financial Statements. The principles, procedures and measures introduced for this purpose are regularly reviewed and continuously developed.

ZEAL Network SE prepares its Annual Financial Statements in accordance with German accounting standards and its Consolidated Financial Statements in accordance with the requirements of IFRS, as adopted by the EU. Changes to the relevant legal regulations are constantly monitored and examined for any adjustments that might be required.

We consider the following elements of the internal control and risk management system to be significant with respect to the (consolidated) financial reporting process:

- Identification of all significant financial reporting-related processes and risk areas including supporting IT systems and definition of corresponding key controls;
- Continuing analysis of new or changing accounting principles, laws and other regulations and assessment of their effect on the financial statements. Regular update of Group-wide accounting and reporting directives in the form of accounting guidelines, charts of accounts and reporting procedures;
- Support of Group companies in implementation of adequate accounting processes and systems, e.g. by providing accounting services, guidelines and checklists for financial statement closing as well as key risks and standard controls within the business processes;
- Centralised preparation of the Consolidated Financial Statements (incl. Group Management Report), employing manual and automated controls and quality checks;
- Assuring requisite expertise of employees involved in the financial accounting and reporting process by means of appropriate selection procedures and training as well as employing specialists for specific valuation and IFRS topics such as valuation of investments and share-based payments.

Finance division staff are responsible for the preparation of the Consolidated Financial Statements. The process of preparing the Consolidated Financial Statements is carried out in accordance with a time schedule agreed with the staff of those departments providing information. Individual items are accounted for based on the input of external specialists/appraisers.

We monitor the accounting-related ICS mainly by controls integrated into processes. These internal controls comprise both preventive as well as detective activities. The following controls are embedded in the process: IT-based and manual data matching, the segregation of functions, the dual checking principle and monitoring controls.

In addition, the auditor of the Consolidated Financial Statements assesses the effectiveness of the risk early warning and monitoring system in accordance with section 317 (4) HGB. In accordance with section 107 (3) sentence 2 AktG, the Supervisory Board regularly commissions the external auditors to conduct additional audit activities.

# FORECAST REPORT

## EXPECTED EARNINGS POSITION

In fiscal year 2021, we plan to further expand our market leadership as an online provider of state lottery and other permitted lottery products. Depending on the general conditions, in particular the jackpot development, we expect billings of at least €700 million for the Germany segment. Following exceptionally strong jackpots in the previous year, we have assumed an average jackpot development, resulting in a lower growth rate than in the previous year. Moreover, we expect revenue to be at least €95 million in fiscal year 2021. With similarly high marketing investments as in the previous year of around €32 million to acquire new registered customers, adjusted EBITDA is expected to reach at least €20 million.

| | **2021** | 2020 |
|---|---|---|
| in € million | **Guidance** | **Actual** |
| Billings (Germany segment) | At least 700 | 651.8 |
| Revenue | At least 95 | 87.0 |
| Adjusted EBITDA[1] | At least 20 | 12.7 |

*[1] Result from operating activities before amortisation, depreciation and non-recurring expenses.*

# TAKEOVER-RELEVANT INFORMATION AND EXPLANATIONS

The following disclosures are made pursuant to sections 315a and 289a of the German Commercial Code (HGB) as well as section 176 of the German Stock Corporation Act (AktG), whereby matters not applicable to ZEAL Network SE are not mentioned:

**Composition of Subscribed Capital**

As of 31 December 2020, the Subscribed Capital of ZEAL Network SE amounted to €22,396,070, divided into 22,396,070 no-par value registered shares. Pursuant to section 67 (2) AktG, only those persons registered as shareholders in the share register are considered to be shareholders of the Company. With the exception of treasury shares, which do not grant any rights to the Company, all shares confer the same rights. Each share confers one vote and, with the possible exception of any new shares with no dividend rights, an equal share in the profits in accordance with the dividend distribution adopted by the General Meeting of shareholders. The rights and obligations arising from the shares are derived from the provisions of applicable law, in particular article 9(1)(c)(ii) of Council Regulation (EC) No. 2157/2001 of 8 October 2001 on the Statute for a European company (SE) ('SE Regulation') in conjunction with sections 12, 53a et seqq., 118 et seqq. and 186 AktG. As of 31 December 2020, ZEAL Network SE held 36,715 treasury shares.

**Restrictions concerning voting rights or the transfer of shares**

The Company's treasury shares do not entitle it to any rights. In the cases of section 136 AktG, the voting rights of the shares concerned are excluded by law. Violations of disclosure obligations pursuant to sections 33, 38 or 39 German Securities Trading Act (WpHG) can also result in the – at least temporary – loss of rights from shares, including the right to vote, pursuant to section 44 WpHG.

Insofar as Management Board members acquire ZEAL shares in a fiscal year for up to 10% of their base salary, for which they receive a corresponding increase in their base salary, they are obligated to hold the corresponding shares for a minimum period of three fiscal years from 1 January of the year of acquisition.

#### Direct or indirect shareholdings which exceed 10% of voting rights

The Company is aware of the following direct and indirect holdings in its share capital in excess of 10% of total voting rights on the basis of voting right notifications pursuant to section 33 WpHG or pursuant to similar provisions:

| Name | Shareholding |
|---|---|
| Oliver Jaster | 33.89% (indirect) [1] |
| Günther SE | 33.89% (indirect) [1] |
| Günther Holding SE | 33.89% (indirect) [1] |
| Günther Holding Immobilien Management GmbH | 30.06% (indirect) [1] |
| Günther Holding Immobilien GmbH & Co. KG | 30.06% (indirect) [1] |
| Günther Consulting GmbH | 30.06% (indirect) [1] |
| Othello Vier Beteiligungs GmbH & Co. KG, Hamburg, Germany | 30.06% (direct/indirect) [1] |
| UBS Group AG | 20.67% (indirect) |
| UBS AG | 20.67% (direct) |
| Working Capital Advisors (UK) Ltd, London, UK | 20.18% (indirect) [1] |
| High Street Partners, Ltd., Cayman Islands | 11.55% (direct) [1] |

[1] *Percentage of the 22,352,160 shares in ZEAL Network SE carrying voting rights disregarding the 43,910 treasury shares held at the time of notification.*

#### Legal regulations and provisions of the Articles of Association regarding the appointment and dismissal of Management Board members and amendments to the Articles of Association

ZEAL Network SE is a European company (SE) with a two-tier system within the meaning of article 38 lit. b) first alternative SE Regulation. The appointment and dismissal of Management Board members is governed by article 9 (1), article 39 (2) and article 46 SE Regulation, sections 84, 85 AktG and the Articles of Association. The members of the Management Board (management organ) of the Company are appointed by the Supervisory Board (supervisory organ) for a period of no more than five years. Members may be re-appointed for further periods of no more than five years (section 6 (2) of the Articles of Association). Members of the Management Board are appointed with a simple majority of the votes cast by the Supervisory Board. If a vote results in a tie, the Chairman has two votes in the event of a new vote on the same item if that also results in a tie (section 13 (6) of the Articles of Association). This procedure applies in the same way to revoking the appointment of Management Board members.

The Management Board consists of one or more persons pursuant to section 6 (1) of the Articles of Association. The number of members is determined by the Supervisory Board. Pursuant to section 84 (2) AktG, the Supervisory Board can appoint a Management Board member as Chairman. If an obligatory Management Board member is missing, the court may appoint a member in urgent cases and on application of a person involved in accordance with section 85 (1) AktG. Pursuant to section 84 (3) AktG, the Supervisory Board can revoke the appointment of a member of the Management Board and of the Chairman of the Management Board if there is an important reason to do so.

The scope of activities which the Company may carry out is defined in section 2 of the Articles of Association. Amendments to the Articles of Association are governed by article 59 SE Regulation, section 179 AktG and the Articles of Association. Unless otherwise prescribed by law, resolutions of the General Meeting are adopted by a simple majority of votes cast (pursuant to section 133 German Stock Corporation Act (AktG), section 20 (1) of the Articles of Association) and where necessary by a simple majority of the share capital represented. In accordance with section 179 (2) German Stock Corporation Act (AktG), a majority of 75% of the share capital represented is required to change the purpose of the Company; no use is made in the Articles of Association of the possibility to determine a larger capital majority for this purpose. The Supervisory Board is authorised to resolve amendments to the Articles of Association that only concern the formal wording (section 16 of the Articles of Association). Pursuant to section 181 (3) German Stock Corporation Act (AktG), amendments to the Articles of Association become effective when entered in the Commercial Register.

**Powers of the Management Board to issue or buy back shares**

Pursuant to section 4 (2) of the Articles of Association, the Management Board is authorised, subject to approval by the Supervisory Board, to increase the share capital on one or more occasions until 21 June 2021 by up to a total of €1,197,017 and, with the approval of the Supervisory Board, to exclude shareholders' subscription rights under certain conditions and within defined limits (Authorised Capital 2019). Further details on the Authorised Capital are provided in section 21 of the notes to the Consolidated Financial Statements and in section 4 of the Articles of Association. No use has yet been made of the Authorised Capital 2019.

By resolution of the General Meeting of shareholders of 27 July 2018, the Company was authorised to acquire 43,910 of its own shares during the period until 31 December 2018 for a price of €43.34 per share from certain shareholders having a claim to a mandatory cash compensation in connection with the transfer of the registered office of the Company from Hamburg, Germany, to London, UK. The Management Board made full use of the authorisation. By resolution of the General Meeting of shareholders of 25 September 2019, the shares can be used, under the exclusion of shareholders' subscription rights, for, among other things, corporate mergers and acquisitions or else can be sold for cash to third parties at a price that is not significantly below the market price at the time of the sale. The shares can furthermore be issued to employees of the Company and affiliated companies, including managers at affiliated companies, in the scope of share-option and/or employee profit-sharing plans. The Company's own shares can also be cancelled. In 2020, 7,195 treasury shares were sold to employees of the Group.

## CORPORATE GOVERNANCE DECLARATION IN ACCORDANCE WITH SECTION 289F HGB

The Corporate Governance Declaration pursuant to section 289f HGB has been made available to the public on the Company's website zealnetwork.de. Further information on corporate governance practices and the definition of targets for the proportion of women on the Supervisory Board, the Management Board and in senior management positions, as well as the Declaration of Conformity pursuant to section 161 AktG are included in the Corporate Governance Statement.

# REMUNERATION REPORT

## ROLE OF THE REMUNERATION COMMITTEE

The Chairman's Committee of the Supervisory Board, acting as the remuneration committee, is responsible for recommending the compensation each Management Board member receives for their services to the Company. The Committee is also responsible for setting the Company's remuneration policy together with the structure of the Management Board's remuneration, including the split of compensation between fixed and variable elements. The remuneration of Management Board members has been reviewed every two years. In reviewing the pay arrangements of the Management Board, the Chairman's Committee takes into account:

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

Our remuneration policy is in no way designed to reward inappropriate outcomes or excessive risk.

## SYSTEM OF MANAGEMENT BOARD REMUNERATION IN THE FISCAL YEAR 2020

The total remuneration and the individual remuneration components of the Management Board members are commensurate with the tasks of the respective Management Board member, the respective individual performance, the performance of the Management Board as a whole and the economic situation of ZEAL. Remuneration is also determined on the basis of a horizontal remuneration comparison with respect to a group of comparable companies in Germany. The remuneration of the Management Board includes both fixed and variable, performance-based compensation. In the 2020 fiscal year, minor changes in the weighting of the components of the variable remuneration as shown in the following text were made to the remuneration system for the Management Board compared with the previous year. Management Board members receive a target annual income as compensation for their work, half of which is made up of fixed and half of which is made up of variable compensation components, based on 100% target achievement.

### Fixed remuneration

The annual basic salary as a fixed, non-performance-related compensation component is paid monthly on a pro-rata basis. The basic salary increases by 10% if the respective Management Board member acquires shares in the Company in a fiscal year for an amount at least equal to the increase. The basic salary is reviewed regularly, at the latest every two years, and adjusted if necessary by mutual agreement with the respective Management Board member. In addition to the basic salary, Management Board members are granted appropriate contributions to private pension plans. Management Board members are also reimbursed for travel and entertainment expenses and for other expenses incurred in the interests of the Company.

### Variable remuneration

The variable component consists of compensation with both short-term and long-term incentive effects ('STI' and 'LTI').

The short-term incentive effect accounts for 22.4% (2019: 25%) of the total compensation of Management Board members in 2020 (based on 100% achievement of STI targets). Target achievement is measured on the basis of individually determined quantitative and qualitative targets. The quantitative targets include in particular financial targets such as EBIT, sales and capital efficiency, while the qualitative targets include strategic targets such as overcoming regulatory challenges. The specific targets are set by the Supervisory Board at the beginning of a fiscal year. The assessment of target achievement is reviewed annually (January or February of the following period) with an equal weighting of the stated targets. Irrespective of an actual higher level of target achievement, a maximum of twice the target STI is paid out.

In 2020, the long-term incentive under the compensation policy is designed to correspond to 27.4% (2019: 25%) of the total compensation of Management Board members (based on 100% achievement of the LTI targets of the compensation year and of the STI targets of the previous year). In this context, Management Board members receive a number of virtual shares each year based on a starting value corresponding to an individually agreed amount weighted by the established achievement of the STI target of the previous year. To calculate the number of virtual shares to be granted, the initial value is divided by the average volume-weighted price of a share of ZEAL Network SE in XETRA trading on the Frankfurt Stock Exchange within a three-month period before the virtual share is issued. The payment is made three years after issuance, the amount to be paid is equal to the number of virtual shares issued multiplied by the final share price. The final share price is the average volume-weighted price of a share of ZEAL Network SE in XETRA trading on the Frankfurt Stock Exchange within a three-month period prior to the payout date. Irrespective of an actually higher degree of target achievement, a maximum of twice the weighted initial value is paid out. In the event that the final share price is negatively influenced by extraordinary external factors, the Supervisory Board may adjust it at its reasonable discretion.

## REMUNERATION GRANTED TO THE MANAGEMENT BOARD

The remuneration granted represents the fixed remuneration retirements and other benefits and short-term incentives granted to the Management Board members for their services in the fiscal year 2020 and the value on 31 December 2020 of the long-term incentives (virtual shares as explained in note 24 to the Consolidated Financial Statements) granted to them in 2020.

| DR HELMUT BECKER, CEO | Fixed remuneration | Short-term incentives | Long-term incentives | Retirement and other benefits | Total |
|---|---|---|---|---|---|
| in € thousand | | | | | |
| Minimum 2020 | 663 | 0 | 0 | 11 | **674** |
| Target 2020 | 663 | 270 | 462 | 11 | **1,406** |
| Actual 2020 | 663 | 462 | 924 | 11 | **2,060** |
| Maximum 2020 | 663 | 540 | 924 | 11 | **2,138** |
| Actual 2019 | 651 | 415 | 460 | 11 | **1,537** |

| JONAS MATTSSON, CFO | Fixed remuneration | Short-term incentives | Long-term incentives | Retirement and other benefits | Total |
|---|---|---|---|---|---|
| in € thousand | | | | | |
| Minimum 2020 | 494 | 0 | 0 | 11 | **505** |
| Target 2020 | 494 | 189 | 323 | 11 | **1,017** |
| Actual 2020 | 494 | 323 | 646 | 11 | **1,474** |
| Maximum 2020 | 494 | 378 | 646 | 11 | **1,529** |
| Actual 2019 | 443 | 291 | 322 | 11 | **1,067** |

## REMUNERATION RECEIVED BY THE MANAGEMENT BOARD

The remuneration received represents the remuneration that was paid to the Management Board members in 2020.

| EXECUTIVE DIRECTORS | Year | Fixed remuneration | Short-term incentives | Long-term incentives | Retirement and other benefits | Total |
|---|---|---|---|---|---|---|
| in € thousand | | | | | | |
| Dr Helmut Becker | 2020 | 663 | 415 | 286 | 11 | **1,375** |
| Dr Helmut Becker | 2019 | 651 | 736[1] | 240[1] | 11 | **1,636**[1] |
| Jonas Mattsson | 2020 | 494 | 291 | 185 | 11 | **981** |
| Jonas Mattsson | 2019 | 443 | 337[1] | 155[1] | 11 | **946**[1] |

[1] *The figures disclosed in the Group Management Report 2019 were restated to disclose the remuneration paid in 2019.*

Management Board members did not receive any loans from the Company or its subsidiaries in the fiscal years 2020 and 2019.

**Benefits upon termination of the Management Board mandate**

The service contracts of Management Board members contain standard market provisions for the event of premature termination of employment without serious cause and a cap on the severance payment to be made in accordance with Recommendation G.13 of the German Corporate Governance Code.

In the event that a Management Board member is not notified by the Supervisory Board at least twelve months before the end of the term of the service contract (corresponding to the term of appointment) that the Supervisory Board intends to reappoint them, the Management Board member will receive a severance payment of twice the annual basic salary due upon expiry of the non-extended term of the contract.

## REMUNERATION OF SUPERVISORY BOARD MEMBERS

The remuneration of the members of the Supervisory Board is defined in section 15 of the Articles of Association of the Company. It is composed by a basic remuneration as well as supplements granted for assuming certain functions in view of the additional workload involved:

**Basic remuneration**

Members of the Supervisory Board receive a fixed annual remuneration of €45.5 thousand for every full fiscal year served in that capacity.

**Supplements**

The Chairman of the Supervisory Board receives a supplement of €91 thousand and the Deputy Chairman of € 45.5 thousand. For their membership in one or more committees, members of the Supervisory Board receive an additional annual remuneration of €17.5 thousand or €35.0 thousand for the chairmen of the Committees.

If a member of the Supervisory Board does not attend one or more meetings of the Supervisory Board, one third of the total remuneration to which the member is entitled is reduced on a percentage basis in proportion to the number of Supervisory Board meetings held in the fiscal year compared to the number of Supervisory Board meetings which the member of the Supervisory Board did not attend. This applies in accordance with the Committee remuneration if a committee member does not attend one or more meetings of the Committee.

If a member joins (or leaves) the Supervisory Board, one of its committees or a function remunerated with a supplement during the year, the respective remuneration component is reduced proportionately (payment of one-twelfth of the respective annual remuneration component for each month or part thereof of membership or exercise of function).

Supervisory Board members shall also be reimbursed for all expenses incurred in connection with the exercise of the Supervisory Board mandate, as well as any value added tax to be paid by them in this respect. The Company shall also pay to the members of the Supervisory Board any value added tax payable on their total remuneration.

The total remuneration of the members of the Supervisory Board is shown in the following table:

| SUPERVISORY BOARD REMUNERATION | 2020 | 2019 |
|---|---|---|
| in € thousand | | |
| Peter Steiner | 184 | 194 |
| *thereof for subsidiaries* | 31 | 36 |
| Andreas de Maizière | 86 | 95 |
| Oliver Jaster | 90 | 63 |
| Thorsten Hehl | 98 | 88 |
| *thereof for subsidiaries* | 25 | 25 |
| Jens Schumann | 115 | 101 |
| *thereof for subsidiaries* | 52 | 38 |
| Leslie-Ann Reed | – | 63 |
| Marc Peters | 60 | 23 |
| Bernd Schiphorst | – | 23 |
| Frank Strauß | 37 | 0 |
| **Total** | **670** | **650** |

Members of the Supervisory Board did not receive any loans from the Company or its subsidiaries in the fiscal years 2020 and 2019.

# CONSOLIDATED FINANCIAL STATEMENTS

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

| in € thousand | Note | **2020** | 2019 |
|---|---|---|---|
| Revenue | 4 | 87,023 | 113,475 |
| Other operating income | 5 | 3,633 | 8,096 |
| Personnel expenses | 24 | (21,870) | (22,964) |
| Other operating expenses | 6 | (56,292) | (68,963) |
| Marketing expenses | | (32,183) | (21,706) |
| Direct operating expenses | | (10,840) | (29,311) |
| Indirect operating expenses | | (13,269) | (17,946) |
| Exchange rate differences | | 250 | (294) |
| Non-recurring income and expenses | 7 | 4,587 | (11,438) |
| **Result from operating activities before interest, taxes, depreciation and amortisation (EBITDA)** | | **17,331** | **17,912** |
| Amortisation/depreciation on intangible assets and property, plant and equipment | 10; 12 | (10,458) | (7,074) |
| Depreciation of right of use assets | 26 | (1,498) | (1,771) |
| **Result from operating activities (EBIT)** | | **5,375** | **9,067** |
| Income from financial activities | 8 | 3,502 | 273 |
| Expenses from financial activities | 8 | (996) | (912) |
| Gain/(loss) on financial assets and other short-term equity funds | 18 | 188 | (88) |
| **Financial result** | | **2,694** | **(727)** |
| Share of loss of an associate | 15 | (213) | (12) |
| **Net profit before taxes** | | **7,856** | **8,328** |
| Income taxes | 9 | 37 | (6,610) |
| **Net profit** | | **7,893** | **1,718** |
| | | | |
| Attributable to | | | |
| Equity shareholders of the Company | | 8,162 | 1,460 |
| Non-controlling interest | | (269) | 258 |
| | | | |
| **Earnings per share for profit attributable to ordinary equity holders of the Company** | | € | € |
| Basic and diluted earnings per share (in €/share) | 21 | 0.37 | 0.09 |

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

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

| in € thousand | Note | **2020** | 2019 |
|---|---|---|---|
| **Net profit** | | **7,893** | **1,718** |
| **Other comprehensive income** | | | |
| Items that will not be reclassified to profit or loss | | | |
| Changes in fair value of financial assets at fair value through other comprehensive income, net of tax | 14 | 511 | 647 |
| Items that may subsequently be reclassified to the income statement | | | |
| Exchange difference on translation of foreign operations | | (164) | – |
| **Other comprehensive income after taxes** | | **347** | **647** |
| **Total comprehensive income after taxes** | | **8,240** | **2,365** |
| | | | |
| Attributable to | | | |
| Equity shareholders of the Company | | 8,509 | 2,107 |
| Non-controlling interest | | (269) | 258 |

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

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER

| | | 2020 | 2019 |
|---|---|---|---|
| **ASSETS** in € thousand | Note | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 10 | 922 | 1,786 |
| Right of use assets | 26 | 4,513 | 8,478 |
| Goodwill | 11 | 160,886 | 160,886 |
| Intangible assets | 12 | 142,788 | 152,091 |
| Deferred tax assets | 13 | 16,852 | 18,474 |
| Other investments | 14 | 4,588 | 4,137 |
| Shares in associated companies | 15 | 433 | 629 |
| Other assets | 17 | 56,470 | – |
| Net investment in finance lease | 25 | 2,450 | 654 |
| **Total non-current assets** | | **389,902** | **347,135** |
| | | | |
| **Current assets** | | | |
| Income tax receivables | | 222 | 52 |
| Trade receivables | | 1,299 | 1,252[1] |
| Net Investment In finance lease | 25 | 1,225 | 392[1] |
| Prepaid expenses | | 863 | 1,178[1] |
| Other financial assets | 16 | 14,462 | 14,608[1] |
| Other assets | 17 | 300 | 312[1] |
| Shares in funds | 18 | – | 2,925[2] |
| Cash, cash equivalents and pledged cash | 18 | 86,061 | 153,280[2] |
| **Total current assets** | | **104,432** | **173,998** |
| | | | |
| **TOTAL ASSETS** | | **494,334** | **521,133** |

[1] *Trade receivables and other current assets of €17,741 thousand disclosed in the 2019 Consolidated Financial Statements have been divided into the following line items: trade receivables, net investment in finance lease, prepaid expenses, other current financial assets and other current assets.*

[2] *The presentation of 'cash equivalents and other short-term shares in equity funds' and 'cash and pledged cash' disclosed in the 2019 Consolidated Financial Statements have been adjusted. The line item cash, cash equivalents and pledged cash include short-term deposits of €69,586 thousand, which have to be allocated to cash and cash equivalents. Shares in funds are presented on another line to separate them more clearly from cash and cash equivalents.*

| EQUITY & LIABILITIES in € thousand | Note | 2020 | 2019 |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Deferred tax liabilities | 13 | 50,701 | 53,256 |
| Other financial liabilities | 19 | 1,270 | –[1] |
| Provisions | 20 | 4,345 | 3,386[1] |
| Lease liabilities | 25 | 6,405 | 8,857 |
| **Total non-current liabilities** | | **62,721** | **65,499** |
| | | | |
| **Current liabilities** | | | |
| Trade payables | | 3,608 | 7,213[3] |
| Other financial liabilities | 19 | 20,175 | 21,465[2,3] |
| Other liabilities | 19 | 6,753 | 5,335[2] |
| Income tax liabilities | | 1,511 | 6,886 |
| Provisions | 20 | 2,264 | 6,562 |
| Lease liabilities | 25 | 1,741 | 2,449 |
| **Total current liabilities** | | **36,051** | **49,910** |
| | | | |
| **Equity** | | | |
| Subscribed capital | 21 | 22,396 | 22,396 |
| Share premium | 21 | 280,132 | 280,132 |
| Treasury shares | 21 | (1,591) | (1,903) |
| Other reserves | 21 | 1,385 | 874 |
| Foreign currency translation reserve | 21 | – | 164 |
| Retained earnings | 21 | 85,343 | 95,674 |
| **Equity attributable to equity holders of the parent** | | **387,665** | **397,337** |
| Non-controlling interest | 21 | 7,897 | 8,388 |
| **Total equity** | | **395,562** | **405,725** |
| | | | |
| **TOTAL EQUITY & LIABILITIES** | | **494,334** | **521,133** |

*[1] Other non-current liabilities of €1,026 thousand disclosed in the 2019 Consolidated Financial Statements, which correspond to the fair value of the long-term portion of the share-based payments, are disclosed as non-current provisions from the fiscal year 2020.*

*[2] Other current liabilities of €30,150 thousand disclosed in the 2019 Consolidated Financial Statements were divided into the following line items: other current financial liabilities and other current liabilities.*

*[3] The accrued liabilities for outstanding invoices amounting to €2,177 thousand (2019: € 1,496 thousand) are not disclosed as other liabilities anymore but as trade payables. The trade payables and other financial liabilities disclosed in the 2019 Consolidated Financial Statements were adjusted accordingly.*

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

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

| in € thousand | Note | 2020 | 2019 |
|---|---|---|---|
| Net profit before tax | | 7,856 | 8,328 |
| Adjustments for | | | |
| Amortisation/depreciation | | 10,458 | 7,074 |
| Depreciation of right of use assets | | 1,498 | 1,771 |
| Impairment of associate company | | 418 | – |
| Expenses from financial activities – lease liabilities | | 320 | 388 |
| Interest income from net investment in finance lease as well as profit from the disposal of right-of-use assets | | (1,209) | – |
| Other income from financial activities | | (2,481) | (273) |
| Other expenses from financial activities | | 471 | 524 |
| Exchange difference on translation of foreign operations | | (164) | – |
| Other non-cash income/(expenses) | | 170 | (57) |
| Changes in | | | |
| Trade receivables | | (47) | 556[1] |
| Prepaid expenses | | 315 | 6,056[1] |
| Other financial assets | | 146 | (105)[1] |
| Other assets | | 12 | (172)[1] |
| Trade payables | | (1,728) | (7,022)[1] |
| Other financial liabilities | | (20) | (3,818)[1] |
| Other liabilities | | (461) | (1,303)[1] |
| Provisions | | (3,339) | 1,380[1] |
| Interest received | | 327 | 273 |
| Interest paid | | (258) | (524) |
| Income taxes paid | | (6,914) | (7,779) |
| **Cash inflow/outflow from operating activities** | | **5,371** | **5,297** |

| in € thousand | Note | 2020 | 2019 |
|---|---|---|---|
| **Cash flow from investing activities** | | | |
| Payment on account to the tax office | 17 | (54,316) | – |
| Receipts from sublease (finance leases) | | 1,006 | – |
| Payments for acquisition of intangible assets | | (280) | (44) |
| Receipt from the sale of intangible assets | | 64 | – |
| Payments for acquisition of property, plant and equipment | | (361) | (60) |
| Receipt from the sale of property, plant and equipment | | 288 | – |
| Payments for acquisition of associates | | (377) | (527) |
| Payments for acquisition of external investments | | – | (170) |
| Receipt/(payment) for investments in funds | 18 | 2,925 | (2,975) |
| Payments made to acquire non-controlling interest | | (828) | (514) |
| Acquisition of a subsidiary, net of cash acquired | | – | 9,348 |
| **Net cash inflow from investing activities** | | **(51,879)** | **5,058** |
| | | | |
| **Cash flow from financing activities** | | | |
| Payments for lease liabilities | | (2,983) | (2,312) |
| Payment of dividends | | (17,887) | – |
| Receipt from the sale of treasury shares | | 159 | – |
| Payments to issue shares | | – | (650) |
| **Net cash outflow from financing activities** | | **(20,711)** | **(2,962)** |
| | | | |
| Change in available funds | | (67,219) | 7,393 |
| Available funds at the beginning of the period | 18 | 153,280 | 145,887 |
| **Available funds at the end of the period** | | **86,061** | **153,280** |
| | | | |
| **Composition of cash, pledged cash and cash equivalents** | | | |
| **Cash, cash equivalents and pledged cash at the end of the fiscal year** | 18 | **86,061** | **153,280** |

[1] *The Consolidated Statement of Cash for the fiscal year 2019 has been adjusted in accordance with the adjustments to the Consolidated Statement of Financial Position.*

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

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

| in € thousand | Subscribed capital | Share premium | Treasury shares | Other reserves | Currency translation adjust-ments | Retained earnings | **Equity attribut-able to equity holders of the parent** | Non-con-trolling interest | **Total equity** |
|---|---|---|---|---|---|---|---|---|---|
| **As at 1 January 2019** | **8,385** | **21,578** | **(1,903)** | **227** | **201** | **94,418** | **122,906** | **–** | **122,906** |
| Net profit | – | – | – | – | – | 1,460 | 1,460 | 258 | 1,718 |
| Other comprehensive income | – | – | – | 647 | (37) | 37 | 647 | – | 647 |
| **Total comprehensive income for the year** | **–** | **–** | **–** | **647** | **(37)** | **1,497** | **2,107** | **258** | **2,365** |
| Capital increase to acquire LOTTO24 AG | 14,011 | 258,554 | – | – | – | – | 272,565 | 8,403 | 280,968 |
| Purchase of non-controlling interest | – | – | – | – | – | (241) | (241) | (273) | (514) |
| **As at 31 December 2019** | **22,396** | **280,132** | **(1,903)** | **874** | **164** | **95,674** | **397,337** | **8,388** | **405,725** |
| Net profit | – | – | – | – | – | 8,162 | 8,162 | (269) | 7,893 |
| Other comprehensive income | – | – | – | 511 | (164) | – | 347 | – | 347 |
| **Total comprehensive income for the year** | **–** | **–** | **–** | **511** | **(164)** | **8,162** | **8,509** | **(269)** | **8,240** |
| Purchase of non-controlling interest | – | – | – | – | – | (605) | (605) | (223) | (828) |
| Treasury shares sold | – | – | 312 | – | – | – | 312 | – | 312 |
| Dividend payments | – | – | – | – | – | (17,887) | (17,887) | – | (17,887) |
| **As at 31 December 2020** | **22,396** | **280,132** | **(1,591)** | **1,385** | **–** | **85,343** | **387,665** | **7,897** | **395,562** |

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1 GENERAL INFORMATION

ZEAL Network SE, Hamburg (hereinafter also referred to as 'ZEAL' or 'the Company'), is a listed company under German law. It is domiciled in Hamburg at the address Straßenbahnring 11, 20251 Hamburg, Germany, and entered in the Commercial Register of the District Court of Hamburg under the registry number HRB 159581. The statement of financial position date is 31 December 2020 and the fiscal year 2020 covered the period from 1 January 2020 to 31 December 2020.

ZEAL is the parent company of an e-commerce group of companies that offer online lottery experiences to their customers. It is mainly active in online lottery brokerage.

The takeover of LOTTO24 AG in May 2019, and the closure of the secondary lottery business and switch to online lottery brokerage in October 2019, makes comparison of the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income and the Consolidated Cash Flow Statement between 2020 and 2019 difficult. In 2020 the online lottery brokerage business for the whole year was reflected, whilst the 2019 comparatives include the secondary lottery activities from 1 January 2019 to 15 October 2019 and the activities of LOTTO24 AG from 14 May 2019. The accounting for the acquisition of LOTTO24 AG is described in note 28.

These Consolidated Financial Statements were approved by resolution of the Management Board on 23 March 2021 and subsequently provided to the Supervisory Board for examination and approval. Publication was authorised by resolution of the Management Board on 23 March 2021.

## 2 ACCOUNTING POLICIES

The significant accounting principles applied by ZEAL and its subsidiaries ('the ZEAL Group' or 'the Group') in preparing the Consolidated Financial Statements are presented below. Unless otherwise stated, the figures are shown in thousands of euros (€ thousand), which may result in rounding differences in individual cases.

### 2.1 BASIS OF PREPARATION

The Consolidated Financial Statements of ZEAL and its subsidiaries as of 31 December 2020 were prepared in accordance with the valid International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) of the International Accounting Standards Board (IASB) which have to be applied in the EU as of the statement of financial position date, and additionally in accordance with the applicable commercial law regulations as stated in section 315e HGB.

The Consolidated Financial Statements have been prepared under the historical cost principle, except for the cash equivalents and other financial assets, which are measured at fair value as described in the accounting policies below.

### 2.2 RECENT ACCOUNTING DEVELOPMENTS

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

The following standards, interpretations and amendments were applied for the first time to the financial reporting period commencing on 1 January 2020 but had no material impact on the Consolidated Financial Statements:

- Amendments to IFRS 3 'Business Combinations'
- Amendments to IAS 1 'Presentation of Financial Statements'
- Amendments to IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'
- Amendments to IFRS 9 'Financial Instruments', IAS 39 'Financial Instruments: Recognition and Measurement', IFRS 7 'Financial Instruments: Disclosures' – Interest Rate Benchmark Reform – Phase 1

**New published standards which are not yet mandatory**

Standards and interpretations which had been published at the time of publishing these Consolidated Financial Statements but which were not yet mandatory are presented below. The Group intends to adopt the amendments to these standards no later than as of their effective date:

- Amendment to IFRS 9 'Financial Instruments', IAS 39 'Financial Instruments: Recognition and Measurement', IFRS 7 'Financial Instruments: Disclosures', IFRS 4 'Insurance Contracts', IFRS 16 'Leases' – Interest Rate Benchmark Reform – Phase 2 has to be applied as of 1 January 2021'.
- IFRS 16 'Leases' – COVID-19 Related Rent Concessions Amendment to be applied to fiscal years starting after 1 July 2020.
- Amendment to IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' effective from 1 January 2022.
- Amendment to IAS 16 'Property, Plant and Equipment' effective from 1 January 2022, subject to EU endorsement.
- Amendment to IFRS 3 'Business Combinations' effective from 1 January 2022, subject to EU endorsement.
- Amendment to IFRS 4 'Insurance contracts' – extension of transition phase effective from 1 January 2022.
- Amendment to IAS 1 'Presentation of Financial Statements' – Classification of Liabilities as Current or Non-current is effective from 1 January 2023, subject to EU endorsement.
- IFRS 17 'Insurance contracts' including amendments to IFRS 17 effective from 1 January 2023, subject to EU endorsement.
- Amendment to IAS 8 'Accounting policies, Changes in Accounting Estimates and Errors' – Definition of accounting estimates effective from 1 January 2023, subject to EU endorsement.

We do not expect the application of these new standards to have any significant impact on the Consolidated Financial Statements.

## 2.3 SIGNIFICANT JUDGEMENTS AND ESTIMATES

IFRS accounting requires that estimates and assumptions be made that underlie the amounts recognised in the Consolidated Financial Statements and notes to the Consolidated Financial Statements. Significant assumptions and estimates were made for the standard useful lives of non-current assets, the realisability of accounts receivable and the accounting treatment and valuation of provisions. Actual figures may differ from these estimates. In addition, the following assumptions as of the statement of financial position date mean that there is a risk that the carrying amounts of assets and liabilities may need to be amended in future:

***Non-recurring income and expenses***

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

***Taxation and other duties***

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

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

***Value added tax (VAT) and related contingent liabilities as well as receivable against the tax authorities***

Due to the changes in German VAT legislation introduced on 1 January 2015, there is significant uncertainty around whether certain services provided by myLotto24 are subject to VAT and the tax base on which any VAT payable would be calculated. At this stage, the Management Board of the Group considers that the likelihood of the outflow of economic benefits is not probable and, as such, no liability has been recorded in the Consolidated Financial Statements. Based on a thorough legal assessment, which included a review of the existing legal framework, the Management Board remains confident that the outcome will be favourable for myLotto24. 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 Management Board has reported a contingent liability of €76.6 million on this matter which is explained in the note 27 to the Consolidated Financial Statements.

Following an agreement of myLotto24 with the tax authority Hannover-Nord in December 2019, myLotto24 made an interim prepayment of €54.3 million for the potential VAT liability to the German tax authorities in January 2020. The payment was made to eliminate the risk of potential fines for late payment of taxes and to significantly reduce the amount of potential interest payments. IFRS standards are not clear on how such prepayments for other taxes should be accounted for. Therefore, the Group has applied the following accounting policies to this matter: a prepayment for other taxes is an asset if it gives the Group the right to obtain future economic benefits either by receiving a cash refund or by using the payment to settle the tax liability and it is probable that these uses will be made. The nature of the prepayment, whether voluntary or mandatory, does not affect this right and therefore does not affect the conclusion that it is an asset. Taking into account all available evidence, ZEAL considers it probable that the tax liability will not have to be paid, as the Management Board believes that it is more likely than not that the disputed tax matter will be resolved in the Group's favour and ZEAL will receive a refund. Against this background, the Group recognised an asset measured at amortised cost, which was determined on the basis of expected reimbursements and an estimated period until the expected reimbursement occurs. This period was determined and estimated taking into account the expertise of an external legal professional as well as on the basis of experience in other comparable tax proceedings and information received from the tax court. Further explanations can be found in note 17.

***Austrian Gaming Duty***

In January 2011, gaming duty became payable on a point of consumption basis in Austria. There is judgement over whether the correct Austrian gaming duty should be payable based on 4% of stakes from 1 January 2018 (2% prior to 1 January 2018), which is the rate for 'betting' or 40% of gross gaming revenue, which is the rate for 'gaming' activities.

Previously, the Management Board considered the most likely outcome was that the duty would be due based on the relevant for stakes rate and accrued on this basis. However, correspondence with the Specialist Division (Fachbereich) of the Tax Office for Duties, Transfer Taxes and Gaming (the 'Austrian Tax Office') indicates that activities in Austria are likely to be classified as gaming. The Austrian Tax Office argues that since lotteries qualify as gaming, bets on the outcome of lotteries also qualify as gaming. This correspondence does not present a legally binding statement of the view of the Austrian Tax Office. Such a legally binding view may follow in the form of a tax assessment. The Management Board considers that it is probable that an assessment will be received on the basis of gaming activities and are providing on the basis that the Group will be assessed at 40% of gross gaming revenue. A €1.9 million provision was recorded in 2018. It increased to €2.1 million in 2019 and remained unchanged in 2020. This amount was provided taking into account legal professionals' assessment and management's interpretation of gaming duty laws. Further explanations can be found in note 20.

***Acquisition of LOTTO24 AG***

In the fiscal year 2019, the acquisition of LOTTO24 AG, the identification of the acquirer represented a significant judgement. In determining the acquirer, consideration was given to the guidance provided in IFRS 3.B15-16.

Particular emphasis was put on the composition of the senior management of the combined Group and the relative size of the ZEAL Group and LOTTO24 AG businesses prior to the combination. Additional other considerations referred to the commercial and strategic rationale for the transaction.

Based on the analysis conducted, the Management Board considered ZEAL to be the accounting acquirer and the acquisition accounting was performed on this basis. Details of the business combination are disclosed in note 28.

***Impact of the COVID-19 pandemic***

From March 2020, following the global outbreak of COVID-19, all the countries where the ZEAL Group is operating took strict restrictions on public life to try to slow the spread of the pandemic. These included closures of shops and movement restrictions and led to significantly reduced consumer behaviour. However, these restrictions did not have a negative impact on the lottery business: lottery outlets have been affected by the shop closures to a limited extent only and this did not lead to a reduction in lottery sales and thus to declining, less attractive jackpot amounts. However, we cannot conclusively say for sure that the restrictions on public life and the significant increase in staying at home have led to a growth in online lottery brokerage alone, because we cannot assess whether the high customer activity during the period of the lockdown restrictions is due to the attractive jackpot levels or to increased online conversion as a result of the general circumstances. For these reasons, the COVID-19 pandemic did not have a material impact on the judgments and estimates made in order to prepare the Consolidated Financial Statements and notes to the Consolidated Financial Statements.

***Goodwill***

Goodwill and indefinite-life intangible assets are tested at least annually for impairment. For the purpose of testing for impairment, goodwill is allocated to the lowest level of cash-generating units at which it is monitored for internal management purposes. An impairment charge is recognised when the recoverable amount of the asset falls below its carrying amount. We determine the recoverable amount for goodwill on the basis of forward-looking estimates and assumptions, such as billings and revenue, cost items, headcount, funding needs and growth rates. These are set by the Management Board and continuously monitored and updated. Further details are presented in note 11.

*Deferred tax assets*

Deferred tax assets are recognised for all unused tax loss carry-forwards to the extent that it appears probable that taxable income will be available, so that the loss carry-forwards can actually be used. When determining the amount of the deferred tax assets, the Management Board must make estimations regarding the expected time and size of the future taxable income, as well as future tax planning.

Further details are provided in note 13.

*Fair value of level 3 investments*

At each reporting period, the fair value of the external investments is calculated. A discounted cash flow model is utilised to determine the fair value (enterprise value) of the underlying businesses that ZEAL has invested in. The fair value of ZEAL's share of each participation has been measured using an option pricing model. The option pricing model allocates the enterprise value of the investment amongst the individual shareholders. Key estimates and assumptions in the model include: the discount rate, billings growth rate and the growth in margin. Further details can be found in note 14.

*Provisions for litigation*

At each reporting period, management is required to estimate the expected outflow of cash resulting from the Group's legal cases. If it is considered probable (i.e. greater than 50%) that a case will be lost then management will estimate the expected costs to be incurred and will record a provision. The determination of the probability that a case will be lost may be made in conjunction with external legal professionals. The expected costs to be incurred are generally a range, dictated by gambling law or courts of law and the Management Board will estimate what percentage of these costs to provide if it is determined that it is probable a case will be lost. The estimate is based on experience from similar cases and the information received from the courts and/or regulators or other third parties involved in the case. Details of the year-end provisions for litigation can be found in note 20.

## 2.4 BASIS OF CONSOLIDATION

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

**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 subsidiaries included in the Consolidated Financial Statements as at 31 December 2020 and 2019, are all wholly owned, with the exception of LOTTO24 AG (full details are provided in note 22, Subsidiaries).

If the Group loses control of the subsidiary, the related assets (including goodwill), liabilities, non-controlling interests and other equity components are derecognised. Any resulting gain or loss is recognised in the Consolidated Income Statement. Any retained interest is recognised at fair value.

**Transactions, balances and Insurance Linked Security (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.

Up to the Business Model Change in 2019, the Group managed 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 did not meet the definition of a structured entity. The ILS vehicle was not consolidated as the relevant criteria around control under IFRS 10 were not met.

In regards to the view that the relevant IFRS 10 criteria were not met in 2019, the Management Board considered the following points:

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

Based on the Management Board's assessment that the Group did not control the ILS vehicle and therefore did not consolidate its results in its own Consolidated Financial Statements, the Management Board considered the transaction to be insurance cover, in consideration for which the Group agreed to pay to the ILS vehicle premiums in accordance with the agreement between the parties.

### 2.5 CLASSIFICATION OF CURRENT AND NON-CURRENT ASSETS AND LIABILITIES

The ZEAL Group presents assets and liabilities in the Consolidated Statement of Financial Position based on the assessment of whether they meet the classification as current or non-current balances.

An asset is classified as current 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 classified as 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

In 2020, the Group had the following main revenue streams: revenue from commissions and fees from the lottery brokerage business and lottery operator revenue.

Prior to the Business Model Change on 15 October 2019, the Group had the following main revenue streams: revenue from secondary lotteries and Instant Win Games and revenue from commissions and fees from the lottery brokerage business.

On 9 March 2020, ZEAL Group launched the new charity lottery freiheit+: ZEAL took over parts of the operational planning and implementation of this charity lottery, which is organised by BildungsChancen gGmbH, Essen.

**(I) Lottery brokerage revenue**

Revenue is generated from commissions and fees which the Group receives for brokering stakes on behalf of customers. The Group generates revenues in the following areas:

- Commissions provided by the respective lottery operators for brokered tickets and stakes to be forwarded,
- Additional/ticket fees incurred in connection with the lottery brokerage of stakes.

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

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

For providing a brokerage service on lottery tickets, commissions and additional ticket fees are received at the time when the control of the ticket is transferred to the lottery organiser. Commissions and additional ticket fees are recognised as revenues when the bets have been made, the lottery ticket information passed on to the lottery organiser and confirmation of receipt has been obtained. Where advanced payments are received from customers for subscriptions, payments received are deferred and the related revenue is only recognised when the conditions mentioned above are met.

Some of the agreements with state lottery companies contain proportional commission rates which are triggered when agreed size criteria are exceeded. The increased proportional commission rates apply either to the excess amounts as of the fulfilment date or retroactively for the complete past time period and are recognised accordingly. The commissions and additional fees do not contain financing components and are due either immediately or according to the agreement.

Billings consist of the accumulated stakes received from customers for game participation and additional fees. In the course of the online lottery brokerage of lottery products, amounts owed by customers are collected by the Group via direct debit or credit card charges. Brokered stakes are transferred directly to the lottery companies without the involvement of third parties. The difference between stakes to be remitted (less commission) and billings represent revenue. As billings determine the commission rates, this figure also has a direct influence on the size of revenues.

*Recognition of the wins from the charity lottery freiheit+*

ZEAL is responsible for funding wins from the charity lottery freiheit+. The lottery runs a weekly draw and offers a jackpot prize consisting of one payment of €250 thousand and monthly payments of €5 thousand for the following 15 years. If the total amount won by customers does not reach the minimum profit distribution according to the State Treaty, the remaining stakes are retained on a security fund (a bank account in ZEAL's name). The security fund will be used to fund jackpot payments from future draws. ZEAL forwards the gaming fees less the minimum profit distribution to BildungsChancen gGmbH, Essen.

The purchase of a freiheit+ charity lottery ticket is accounted for as a derivative in accordance with IFRS 9. This contract must meet the following criteria:

- Payments are linked to the outcome of an event;
- The value of the contract, compared to the potential pay-out, is relatively low;
- The contract is 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.

Gains or losses from a change in the fair value of derivatives are recognised in the Consolidated Income Statement as revenue. Stakes and pay-outs are therefore not regarded as separate income and expenditure but are aggregated to determine the total fair value.

**(II) Revenue from secondary lotteries and Instant Win Games**

Revenue that myLotto24 Limited generated until 15 October 2019 as the operator of secondary lotteries and Instant Win Games, where myLotto24 Limited bore the bookmaking risk, was recognised at the moment the draw results of the respective lotteries (or results of the games) were announced. Stakes received as of the Consolidated Statement of Financial Position date, but which were intended for games whose draw results were not available until after that date, were deferred.

A contract to participate in a secondary lottery was also treated as a derivative.

Gains or losses from a change in the fair value of derivatives were recognised in the Consolidated Income Statement as revenue. Stakes and pay-outs were therefore not recognised as separate income and expenditure but are reflected in total in the fair value.

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

No revenue was generated from secondary lotteries anymore in 2020.

**(III) Other revenue**

Other revenue relates to lottery services. These mainly comprise services in connection with online marketing, user experience and customer acquisition and are realised at the time the service is rendered.

## 2.7 OTHER OPERATING INCOME

Other operating income includes revenue from all other operating activities which are not related to the principal activities of the Company, such as gains/losses from disposals, cost recharges, income from operating sublease etc.

## 2.8 INCOME FROM FINANCIAL ACTIVITIES

Interest income (incl. interest income from net investment in finance lease) is recognised on an accruals basis using the effective interest rate method.

## 2.9 INCOME TAXES

The tax expense for the year comprises current and deferred tax. Tax is recognised in the Consolidated 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 and taking into account tax shields from losses carried forward. The Group's liability for current taxation is calculated using tax rates and laws that have been enacted or substantively enacted by the Consolidated 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 investments in subsidiaries and associates, 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 subsidiaries only to the extent that, at the Consolidated 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 (incl. 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 the Consolidated Statement of Financial Position date.

## 2.10 OTHER OPERATING EXPENSES

Other operating expenses are recognised when services have been provided to the Group. Any goods or services that have been provided during the period where no invoice has been received from the supplier are accrued for. Where it is probable that future economic benefits will flow as a result of a good or service provided and the cost can be reliably measured, the costs are capitalised and amortised over the duration of the expected economic benefit. Non-deductible VAT is included within other operating expenses as opposed to being included in the attributable costs. Direct operating expenses are those expenses which are incurred in operating the Group's lottery brokerage activities and primarily relate to product and payments processing costs. Other operating expenses are costs which are not directly related to the Group's operations and include legal and regulatory costs, office expenses and freelancer costs.

## 2.11 NON-RECURRING INCOME AND EXPENSES

To improve the understanding of the Group's financial performance, items which are not considered to reflect the underlying performance of the reporting period are presented as non-recurring income and expenses. Items classified as non-recurring income and expenses are disclosed separately due to their size and nature to enable a better understanding of year-on-year performance. These include significant restructuring of the activities of an entity including employee severance costs as these are irregular in nature as well as the reversals of provisions made in the past for which the related costs had been classified as non-recurring expenses.

## 2.12 FOREIGN EXCHANGE

### (I) Transactions and balances

Transactions in foreign currencies are converted into 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 exchange rate of the reporting date. Translation differences of shares in equity funds and other deposits are recorded within financial income or expense. Translations differences on tax balances, are recorded in the income taxes line item. The translation differences of all other items are included in operating profit in the Consolidated Income Statement.

### (II) 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 reporting currency. On consolidation, the assets and liabilities of subsidiaries where the Euro is not the functional currency are translated into Euros at the rate of exchange at the reporting date and their income statements at average exchange rates. The exchange differences arising on translation for consolidation are recognised in other comprehensive income (OCI). The average exchange rates (calculated based on the 12-month average of the exchange rates during the fiscal year) and the closing exchange rates have been taken from the publicly available European Central Bank rates. The amount recognised in other comprehensive income for a subsidiary with a functional currency other than the euro is reclassified to the income statement upon disposal of that subsidiary.

### 2.13 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 in the Consolidated Income Statement. Internally generated intangibles comprise 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 into account any changes in circumstance that could affect valuation and reporting.

The Management Board's 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 de-recognised 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 operating profit or loss when the asset is de-recognised.

#### (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 incurred in connection with the production of identifiable and unique internally generated software controlled by the Group are capitalised if it is likely that they will generate future economic benefits. Direct costs include software development employment costs (incl. those of contractors used) and an appropriate portion of overheads that are directly attributable to the development of the asset. Capitalised computer software, licence and development costs are amortised over their useful economic lives of between three and five years.

#### (II) Acquired brands

Acquired brands are capitalised on the basis of the fair value of the costs incurred to acquire them. The brand LOTTO24 acquired by the Group is considered to be indefinite as no contractual, legal, competitive, economic or other factor limits its useful economic life. The LOTTO24 brand has high brand awareness and there are no indicators that its useful life should not be indefinite.

#### (III) Acquired customer lists

Acquired customer lists are capitalised on the basis of the fair value of the costs incurred to acquire them. Acquired customer lists are amortised over their useful economic lives of twelve years.

#### (IV) Research and development

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

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

- where there is a clearly defined project;
- where there is separately identifiable expenditure;
- where expenditure can be reliably measured;
- where an outcome can be assessed with reasonable certainty (in terms of feasibility and commerciality);
- when expected revenues exceed expected costs and the Group has the resources to complete the task;
- where there is a definable economic benefit through revenue generation or cost reduction.

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

### 2.14 PROPERTY, PLANT AND EQUIPMENT

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

Cost includes expenditure made to enable the asset to operate in a manner as intended by management. 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 or scrap proceeds and the carrying value of the asset and is recognised in the income statement.

#### (I) Assets in the course of construction

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

#### (II) Depreciation

Depreciation is provided on a straight-line basis at rates calculated to write-off the cost, 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 fiscal year the Group reviews all of its depreciation rates 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.

### 2.15 IMPAIRMENT

This following policy on impairment covers all non-current assets except financial assets and deferred tax assets.

A review of all non-financial assets (incl. goodwill and indefinite lived assets) is carried out at least on each reporting date to ascertain whether there is any indication that an impairment is required. 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 recoverable amount is determined for each individual asset, unless it does not generate cash inflows that are largely independent of those from other assets or groups of assets. In the latter case, the impairment test is performed at the level of a group of assets that generates cash inflows that are largely independent of those from other assets (cash-generating unit). For the purpose of determining any impairment, goodwill is allocated to the lowest level of cash-generating units at which it is monitored for internal management purposes. If the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is impaired and is written down to its recoverable amount.

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.

In the case of non-financial assets, we carry out a review on each reporting date to ascertain whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. A previously recognised impairment loss is only reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited to the extent that the carrying amount of an asset may not exceed its recoverable amount nor the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised for the asset in prior years. We recognise reversals in the income statement. An impairment loss recognised for goodwill may not be reversed in subsequent reporting periods.

## 2.16 LEASING

**As a lessee**

The Group recognises a right of use asset and a lease liability at the lease commencement date. The right of use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right of use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right of use asset or the end of the lease term. The estimated useful lives of right of use assets are determined on the same basis as those of property and equipment.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date. Generally, the Group uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- Fixed payments;
- Variable payments that depend on an index or rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable under a residual value guarantee; and
- The exercise price under a purchase agreement that the Group is reasonably certain to exercise.

The lease liability is measured at amortised cost using the effective interest method. It is re-measured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

A number of property leases contain renewal and termination options. Such contract terms are used to give the Group maximum operational flexibility with respect to the contract portfolio. The majority of the existing renewal and termination options can only be exercised by us and not by the respective lessor.

**Short-term leases and leases of low-value assets**

The Group has elected not to recognise right of use assets and lease liabilities for short term leases that have a lease term of 12 months or less and leases of low value assets. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

**As a lessor**

The Group subleases some of its office space in London and Germany. As an intermediate lessor, the Group accounts for its interest in the head lease and the sublease separately. It assesses the lease classification of a sublease to determine if the risk and rewards of ownership are transferred of the underlying asset. The Group recognises lease payments received under the operating lease as income on a straight-line basis over the lease term as part of other operating income. If a lease is determined to be a finance lease, the Group recognises a net investment for the present value of the expected future lease income. The net investment is measured at amortised cost using the effective interest method.

## 2.17 BUSINESS COMBINATIONS

The acquisition method is used to account for business combinations.

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

When a company or business is acquired, the identifiable assets and liabilities and contingent liabilities acquired are generally recognised at their fair values.

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.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's CGUs that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

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

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

## 2.18 ASSOCIATED COMPANIES

Associated companies are those companies over which the Group has significant influence but no control, generally accompanied by a shareholding of 20% to 50%. Shares held in associated companies are accounted for using equity accounting.

Under equity accounting, the investment in the associated company is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of the net assets of the associate from the acquisition date. Goodwill relating to the associated company is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The income statement reflects the Group's share of the results of operations of the associated company. When there has been a change recognised directly in the equity of the associated company, the Group recognises its share of any changes, when applicable, in its Consolidated Statement of Changes in Equity. Unrealised gains and losses resulting from transactions between the Group and the associated company are eliminated to the extent of the interest in the associated company.

The Group's share of the associated company's result for the period is shown on the face of the Consolidated Income Statement. The financial statements of the associated company are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies of the associated company into line with those of the Group.

## 2.19 FINANCIAL ASSETS AND LIABILITIES

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

**i) Financial assets**

***Initial recognition and measurement***

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

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

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

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

***Subsequent measurement***

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

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

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

(II) Financial assets at amortised cost

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

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

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

*Trade receivables*

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

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

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

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

*Other investments*

The Group invests in the equity instruments of other entities. Other investments are held as long-term strategic investments. The Management Board elected to hold them at FVOCI. Each investment is initially recognised at fair value plus transaction costs. As the investments are not traded on active markets a discounted cash flow model is utilised to determine their fair value (enterprise value). The fair value of ZEAL's share of each business has been measured using an option pricing model.

**Impairment of financial assets**

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

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

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

The COVID-19 pandemic did not impact significantly the ECL assessment as the lottery business was not negatively impacted (further details are provided in note 2.3).

**ii) Financial liabilities**

Financial liabilities held at amortised cost include trade payables, accrued financial liabilities and liabilities from lottery operations as well as borrowings.

Financial liabilities are initially recognised at fair value and subsequently remeasured at amortised cost, using the effective interest rate.

### 2.20 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 the ZEAL Group 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. The Company has only issued common shares.

Treasury shares are recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of treasury shares.

**(II) Dividend distributions**

Dividend distributions to equity holders of ZEAL are recognised as a liability in the Group's Consolidated Financial Statements in the period in which the dividends are approved by the Company's shareholders. Dividends declared after the Consolidated Statement of Financial Position date are not recognised as there is no present obligation at that date and the Consolidated Statement of Financial Positions forms the basis to determine dividend allowance.

### 2.21 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. On initial recognition, non-current provisions are calculated on a discounted basis where the effect is material and compounded accordingly in subsequent measurements. The unwinding of the discount is recognised in expenses from financial activities.

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.

### 2.22 CONTINGENT LIABILITIES

Contingent liabilities are not recognised in the Consolidated Financial Statements. However, they are disclosed in the notes to the Consolidated Financial Statements if the possibility of an outflow of resources embodying economic benefits is not remote.

### 2.23 EMPLOYEE BENEFITS

The Group operates various employee benefits, bonus plans and other employment schemes including termination benefits, cash settled share-based payments, defined contribution pension plans and an Employee Stock Purchase Program.

**(I) Employee bonus**

The Group recognises a liability and an expense for bonuses, based on a formula that takes into account the achievement of individual goals as well as the Group performance.

**(II) Termination benefits**

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

**(III) Defined contribution pension plans**

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

**(IV) Cash-settled share-based payments**

For cash-settled share-based payment schemes, a liability is recognised based on the fair value of the payment award at the Consolidated Statement of Financial Position date. The fair value of the virtual share options granted is recognised in the Consolidated Income Statement as personnel expenses over the vesting period to reflect the value of the employee services received.

A liability is recognised for the fair value of cash-settled transactions. The fair value is measured at initial recognition as well as at each reporting date and at the settlement date. Changes in fair value are recognised in personnel expenses. Until 2018, the virtual share options granted (exercisable as at 31 December 2020) were subject to non-market vesting conditions. The fair value was recognised in profit or loss over the period until the first possible vesting date with the recognition of a corresponding liability. It was calculated using a Monte-Carlo model. There are no longer any vesting conditions for the virtual share options granted from 2019. Further details are provided in 24.

**(V) Employee stock purchase program**

In 2020, the Group created an employee share purchase plan and offered all employees who are permanent and based in the UK, Germany or Spain the opportunity to buy shares of ZEAL, representing a total of 0.03% of the shares. The Group contributed an additional 20% and covered the taxes and social security for the 20%. The related costs are recognised as personnel expenses.

# 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 Management Board. Following the takeover of LOTTO24 AG on 14 May 2019 and the Business Model Change on 15 October 2019, the Group reviewed its reportable operating segments. The reporting to the Management Board was adjusted from 1 January 2020. Accordingly, the following segments exist as of this date:

**Germany**

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

**Other**

The Other segment comprises the remaining elements of our business including our online lottery operation for the charitable organisation ONCE in Spain and our investments in early-stage start-ups.

The 2019 comparatives have been restated so that they are presented on the same basis as the 2020 segmental disclosure.

The 2019 segmental disclosure includes a third operating segment: the Lottery Betting segment. This comprises the results of our secondary lottery betting business (secondary lottery) and sales of Instant Win Games products. Its cost base includes direct costs and an allocation of the shared cost base. The Group transitioned its secondary lottery betting business in Germany to a licenced online lottery brokerage model on 15 October 2019. Following this, its international secondary lottery business was transferred to the Other segment and the Lottery Betting segment no longer reported to the CODM on a standalone basis. For transparency reasons, however, this business, which was terminated in 2019, is presented separately.

**Business unit segment reporting**

| **2020** | Germany | Other | **Total** |
|---|---|---|---|
| in € thousand | | | |
| Revenue | 80,005 | 7,018 | 87,023 |
| Other operating income | 3,478 | (9) | 3,469 |
| Personnel expenses | (20,258) | (1,612) | (21,870) |
| Other operating expenses and exchange rate differences | (51,475) | (4,403) | (56,039) |
| Non-recurring income | 4,587 | – | 4,587 |
| **EBITDA** | **16,337** | **994** | **17,331** |
| Amortisation/depreciation | – | – | (11,956) |
| **EBIT** | – | – | 5,375 |
| Financial result | – | – | 2,694 |
| Share of loss from associates | – | – | (213) |
| **Net profit before taxes** | **–** | **–** | **7,856** |
| Income taxes | – | – | 37 |
| **Net profit** | **–** | **–** | **7,893** |

Billings were €651,761 thousand for the Germany segment and €994 thousand for the Other segment.

**Business unit segment reporting**

| | | Other | | |
|---|---|---|---|---|
| **2019 restated** | Germany | Lottery Betting | Other | **Total** |
| in € thousand | | | | |
| Revenue | 29,319 | 79,323 | 4,833 | 113,475 |
| Other operating income | 1,090 | 6,525 | 481 | 8,096 |
| Personnel expenses | (8,819) | (11,540) | (2,605) | (22,964) |
| Other operating expenses and exchange rate differences | (19,586) | (45,396) | (4,275) | (69,257) |
| Non-recurring income | (3,756) | (8,002) | 320 | (11,438) |
| **EBITDA** | **(1,752)** | **20,910** | **(1,246)** | **17,912** |
| Amortisation/depreciation | – | – | – | (8,845) |
| **EBIT** | – | – | – | 9,067 |
| Financial result | – | – | – | (727) |
| Share of loss from associates | – | – | – | (12) |
| **Net profit before taxes** | **–** | **–** | **–** | **8,328** |
| Income taxes | – | – | – | (6,610) |
| **Net profit** | **–** | **–** | **–** | **1,718** |

Billings were €250,887 thousand for the Germany segment and €2,247 thousand for the Other segment.

## 4 REVENUE

| | 2020 | 2019 |
|---|---|---|
| in € thousand | | |
| Commissions | 47,498 | 18.635[1] |
| Ticket fees | 30,893 | 10.432[2] |
| **Lottery brokerage revenue** | **78,391** | **29,067** |
| Stakes | – | 196,218 |
| Prizes | – | 16,487[2] |
| Prizes | – | (133,383) |
| **Revenue from secondary lottery betting and Instant Win Games** | **–** | **79,323** |
| Other revenue | 8,632 | 5,085[1] |
| **Revenue** | **87,023** | **113,475** |

[1] *The figures disclosed in the notes to the Consolidated Financial Statements in 2019 were adjusted so that the commissions no longer include the revenue from ONCE (€ 4,495 thousand) und Lottostarlet (€ 497 thousand) but only represent the commissions from the lottery brokerage business.*

[2] *The figures disclosed in the notes to the Consolidated Financial Statements in 2019 were adjusted in order to disclose the ticket fees relating to the secondary lottery business in this category.*

Commissions and ticket fees comprise the revenue from the lottery brokerage business described in note 2.6.

In the previous year, revenue from secondary lottery betting and Instant Win Games products were classified as derivative financial instruments and are disclosed in the Consolidated Income Statement net of VAT, free bets and prizes. This revenue line was discontinued in the previous year as part of the Business Model Change.

The other revenue mainly includes the revenue from the lottery services for the charity lottery of the Organización Nacional de Ciegos de España ('ONCE') in Spain as well as services for Lottostarlet, a lottery operator registered in Malta.

## 5 OTHER OPERATING INCOME

| | 2020 | 2019 |
|---|---|---|
| in € thousand | | |
| Costs recharged | 1,083 | – |
| Sublease income | 541 | 464[1] |
| Income from the release of dormant customer accounts | 523 | (51) |
| Income from insurance | – | 4,849 |
| Income from hedging transactions | – | 1,381 |
| Other | 1,490 | 1,463[1] |
| **Other operating income** | **3,633** | **8,096** |

[1] *The figures disclosed in the notes to the Consolidated Statements in 2019 were restated to disclose the sublease income separately.*

The sublease income relates to the income from operating sublease concerning the offices rented by the Group in London and Hamburg as well as to the recharges of ancillary costs for subleases.

In 2020, the Group recognised income of €523 thousand relating to customer account balances where no activity had been recorded at least in the last 36 months and all procedures have been completed to contact the customer.

In 2019, income from insurance related to the income received under the ILS insurance following the significant prize pay-out in September 2019. Income from hedging activities related to income generated from hedged tickets.

## 6 OTHER OPERATING EXPENSES

| | 2020 | 2019 |
|---|---|---|
| in € thousand | | |
| Marketing expenses | 32,183 | 21,706 |
| Direct operating expenses | 10,840 | 29,311 |
| Indirect operating expenses | 13,269 | 17,946 |
| **Other operating expenses** | **56,292** | **68,963** |

Other operating expenses decreased in total by € 12,674 thousand:

- Marketing expenses increased by 48% (€10,477 thousand) in 2020 compared to 2019, primarily driven by additional marketing investments following the Business Model Change and the improved regulatory environment for online lottery brokers. In line with its strategy, this enables the Group to grow more strongly and rapidly than the market, to strengthen its marketing activities and at the same time to reduce CPL compared to the secondary lottery business and gain new registered customers. The increase in marketing expenses is also partly due to the fact that the fiscal year 2020 includes marketing expenses of both the Tipp24 and LOTTO24 brands, whereas the comparative period does not consider marketing expenses of LOTTO24 prior to the takeover in May 2019.
- €18,471 thousand decrease in direct operating expenses mainly relates to the Business Model Change from the previous year. Following the closure of the Group's secondary lottery business, it no longer incurs the costs of mitigating the bookmaking risks. By contrast, there was an increase in costs relating to transaction traffic and payment processing. As a result of the Business Model Change, non-deductible VAT also decreased by €1,054 thousand (to €83 thousand).
- Decrease in indirect operating expenses of €4,677 thousand, mainly due to a decline in advisory costs and travel expenses of €2,538 thousand and €683 thousand respectively. The restrictions in connection with the COVID-19 pandemic led to a significant absence of travel, entertainment, and certain office expenses. The remaining movement is due to various immaterial decreases in other line items.

Indirect operating expenses includes fees charged by the auditor, Ernst & Young, GmbH, Wirtschaftsprüfungsgesellschaft, Hamburg, and its affiliates which are summarised in the table below.

| **Auditor's remuneration** | 2020 | 2019 |
|---|---|---|
| in € thousand | | |
| Audit of financial statements | 501[1] | 871 |
| Other assurance services | 4 | 35[2] |
| Tax advisory services | 26 | – |
| **Other services** | – | 169[2] |
| **Total auditor remuneration** | **531** | **1,075** |

*[1] Thereof for international partner firms of the auditor €109 thousand (2019: €401 thousand).*

*[2] In 2019, these costs related to additional one-off services in relation to the acquisition of LOTTO24 AG.*

## 7 NON-RECURRING INCOME AND EXPENSES

| | 2020 | 2019 |
|---|---|---|
| in € thousand | | |
| Stamp Duty refund | 3,656 | – |
| Restructuring costs associated with acquisition of LOTTO24 AG | 731 | (9,388) |
| Transaction costs associated with acquisition of LOTTO24 AG | – | (1,950) |
| Income associated with closure of operations in Ventura24's B2C business | – | 500 |
| Other income and costs | 200 | (600) |
| **Non-recurring income and expenses** | **4,587** | **(11,438)** |

The classification as non-recurring income and expenses was chosen in order to present an appropriate picture of the lack of permanence of certain income and expense items, thereby enabling a clearer picture of the actual results of operations in the 2020 fiscal year.

**Stamp duty refund**

The refund of €3,656 thousand recognised in 2020 relates to the net repayment of stamp duty reserve tax from HMRC (the UK tax authority). This repayment will not recur insofar as it is an one-off tax refund and therefore the income associated with it has been recognised as non-recurring.

**Restructuring costs**

As a result of the acquisition of LOTTO24 AG, the Group implemented a restructuring programme (which amounted €9,388 thousand in 2019). The costs associated with this programme were also disclosed as non-recurring as they related to the Business Model Change that took place in the previous year. €731 thousand relating to the provision booked in 2019 for these costs were released in 2020.

**Transaction costs**

In the previous year, the Group acquired LOTTO24 AG. Due to the irregular nature of this transaction, the related transactions costs of € 1,950 thousand were considered as non-recurring expenses. These costs included €941 thousand of legal costs, €623 thousand of consulting costs, €155 thousand of non-audit fees, €52 thousand of public relations costs, and €179 thousand of other costs.

**Income related to the discontinuation of Ventura24 B2C business**

In 2018, costs of €2,983 thousand were incurred in connection with the discontinuation of Ventura24's B2C lottery brokerage business. The costs included €2,362 thousand of provisions associated with employee severance. The discontinuation of the B2C lottery brokerage business was a non-recurring event that was not expected by the Management Board. Consequently, all related costs were considered as one-off expenses. In 2019, €500 thousand was released from the provision, as this partial amount was no longer required.

**Other income and costs**

In 2019, costs of €600 thousand were accrued for a known one-off process. This lawsuit is a non-recurring event, so the associated costs were recognised as one-off expenses. The current developments of the lawsuit resulted in a reduction of the expected costs for the Group. Therefore, €200 thousand was reversed in 2020.

## 8 INCOME AND EXPENSES FROM FINANCIAL ACTIVITIES

| | **2020** | 2019 |
|---|---|---|
| in € thousand | | |
| **Income from financial activities** | | |
| Interest income from tax prepayment | 2,154 | – |
| Interest income from net investment in finance leases as well as profit from the disposal of right-of-use assets | 1,209 | – |
| Income from other long-term securities and loans | 139 | 273 |
| | **3,502** | **273** |
| **Expenses from financial activities** | | |
| Interest expenses from lease liabilities | (320) | (388) |
| Impairment of an associate | (418) | – |
| Other expenses from financial activities | (258) | (524) |
| | **(996)** | **(912)** |

Interest income from tax prepayment relates to the interest accrued on the payment of €54.3 million made to the Tax Office of 'Hannover-Nord' in January 2020. Further details are provided in note 17.

Income from net investment in finance leases leases as well as profit from the disposal of right-of-use assets relates to office spaces in London and Germany, which the Group started subletting in 2020. Further details on this finance leases as well as on the lease liabilities are provided in note 25.

In 2020, the Group recognises an impairment of €418 thousand on its associate Cloud Canyon Limited. Further details are provided in note 15.

## 9 INCOME TAXES

Income taxes paid or payable as well as deferred taxes and withholding taxes are recognised within the income taxes line item. Following the relocation of ZEAL's registered office from the UK to Germany in 2019, it became subject to German corporate income and German trade tax. The applicable corporate income tax rate in 2020 was 15.0%. The solidarity surcharge was 5.5% of corporate income tax.

In addition, trade tax on income is levied on commercial profit, which is calculated by taking the taxable income according to corporate income tax law and making required additions or subtractions according to German trade tax law. The effective trade tax on income rate depends on the municipality in which the entity maintains a permanent establishment for carrying on its operations. The effective trade tax on income rate for Hamburg in fiscal year 2020 was 16.45%. As a result, the total tax rate amounts to 32.28%.

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 of 32.28% was used (2019: 32.28%). 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** | **2020** | 2019 |
|---|---|---|
| in € thousand | | |
| **Current taxation** | | |
| Charge for the year | 1.010 | 9,550 |
| Adjustments in respect of prior years | (116) | (225) |
| **Total current taxation** | **894** | **9,325** |
| | | |
| **Deferred taxation** | | |
| Credit for the year | (931) | (2,715) |
| **Total deferred taxation** | **(931)** | **(2,715)** |
| | | |
| **Total taxation expense (income statement)** | **(37)** | **6,610** |

| **Tax rate reconciliation** | **2020** | 2019 |
|---|---|---|
| in € thousand | | |
| **Net profit before taxes** | **7,856** | **8,328** |
| Expected tax charge at average tax rate of 32.28% (2019: 32.28%) | 2,536 | 1,786 |
| | | |
| Non-deductible expenses | (542) | (1,899) |
| Adjustments in foreign tax rates | (1,414) | – |
| Adjustments in respect of prior years | (532) | (225) |
| Tax loss utilisation | (210) | (4,240) |
| Unrecognised tax losses carried forward | 162 | 1,812 |
| Foreign exchange | – | (359) |
| Disposals of intangible assets[1] | – | 10,416 |
| Other | (37) | (681) |
| **Total taxation expense** | **(37)** | **6,610** |

[1] *The sale of intangible assets between Group Companies during the Business Model Change and the migration of ZEAL from the United Kingdom to Germany triggered tax charges which were only partly sheltered by tax losses.*

## 10 PROPERTY, PLANT AND EQUIPMENT

| Cost | Office equipment | Hardware | Total |
|---|---|---|---|
| in € thousand | | | |
| **Balance as at 1 January 2019** | **4,772** | **5,772** | **10,544** |
| Additions from the acquisition of subsidiaries | 1,244 | – | 1,244 |
| Other additions | 57 | – | 57 |
| Disposals | (987) | – | (987) |
| **Balance as at 31 December 2019** | **5,088** | **5,772** | **10,860** |
| Additions | 352 | 9 | 361 |
| Disposals | (3,775) | (507) | (4,282) |
| **Balance as at 31 December 2020** | **1,665** | **5,275** | **6,940** |

| Accumulated depreciation | Office equipment | Hardware | Total |
|---|---|---|---|
| in € thousand | | | |
| **Accumulated depreciation as at 1 January 2019** | **(2,986)** | **(5,133)** | **(8,119)** |
| Provided during the year | (1,471) | 321) | (1,792) |
| Disposals | 837 | – | 837 |
| **Accumulated depreciation as at 31 December 2019** | **(3,620)** | **(5,454)** | **(9,074)** |
| Provided during the year | (885) | (53) | (938) |
| Disposals | 3,506 | 489 | 3,994 |
| **Accumulated depreciation as at 31 December 2020** | **(999)** | **(5,019)** | **(6,018)** |

| Book value | Office equipment | Hardware | Total |
|---|---|---|---|
| in € thousand | | | |
| **As at 31 December 2019** | **1,468** | **318** | **1,786** |
| **As at 31 December 2020** | **666** | **256** | **922** |

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

## 11 GOODWILL

ZEAL assesses its goodwill of €160,886 thousand (2019: €160,886 thousand) at the end of the reporting period for impairment requirement. The test compares the carrying amount with the recoverable amount, in other words the higher of net realisable value and value in use. We calculate value in use on the basis of discounted future cash flow projections from internal budgets for several years as approved by management.

For the purpose of determining any impairment, the goodwill is allocated to the lowest level of cash-generating units at which it is monitored for internal management purposes. Following the acquisition of LOTTO24 AG on 14 May 2019 and the Business Model Change on 15 October 2019, the Group adjusted its reportable operating segments in 2020. In this context, the Group has identified two CGUs, which correspond to the two segments 'Germany' and 'Other'. For internal management purposes, the goodwill is fully allocated to the CGU 'Germany'. Compared to the previous year's allocation, this has no significant effect. Budget calculations are based on a detailed planning period of five years, as the standard planning period of the Group.

Depending on the general conditions – especially the jackpot development – the Management Board expects a growth rate of the billings in the low double-digit percentage range, assuming an average jackpot development. Moreover, the Management Board expects that revenue growth will be in the low double-digit percentage range. For EBITDA, the Management Board expects similarly high marketing investments for new customer acquisition as in the 2020 fiscal year. From 2025, an EBITDA of around € 100 million is expected.

For the discounting of cash flows in the detailed planning period, the Company used a pre-tax cost of capital rate of 13.01% (2019: 10.44%) and 10.08% after taxes (2019: 7.94%), which were determined using the 'Capital Asset Pricing Model' (CAPM).

At the end of the detailed planning period, for the years after 2025 the Group applies a reconciled perpetual annuity based on the CAPM discounted with a weighted average pre-tax cost of capital (WACC) of 11.01% (2019: 8.44%) and 8.08% post-tax (2019: 7.94%). The calculation of the perpetual annuity is based on a sustainable, average growth rate of 2.0%.

We continually monitor and update the relevant technical, market-based, economic and legal parameters and conditions for the impairment test. As no impairment was detected in the course of the impairment test, no non-scheduled write-downs were recognised in the fiscal year 2020.

The EBITDA-margin and the WACC are the factors with the most significant influence on value in use. A sensitivity test of the planning assumptions revealed that ceteris paribus no realistic change in the applied parameters EBITDA margin and WACC would lead to impairment.

## 12 INTANGIBLE ASSETS

| Cost | Brand | Customer list | Software | Licences | Total |
|---|---|---|---|---|---|
| in € thousand | | | | | |
| **Balance as at 1 January 2019** | **–** | **–** | **31,838** | **184** | **32,022** |
| Additions from the acquisition of subsidiaries | 66,007 | 88,387 | 2,634 | – | 157,028 |
| Other additions | – | – | 46 | – | 46 |
| Disposals | – | – | (680) | – | (680) |
| **Balance as at 31 December 2019** | **66,007** | **88,387** | **33,838** | **184** | **188,416** |
| Additions | 0 | – | 280 | – | 280 |
| Disposals | – | – | (56) | (184) | (240) |
| **Balance as at 31 December 2020** | **66,007** | **88,387** | **34,063** | **0** | **188,185** |

| Accumulated amortisation and impairment | Brand | Customer list | Software | Licences | Total |
|---|---|---|---|---|---|
| in € thousand | | | | | |
| **Accumulated amortisation as at 1 January 2019** | **–** | **–** | **(31,617)** | **(104)** | **(31,721)** |
| Amortisation provided during the year | – | (4,653) | (611) | (18) | (5,282) |
| Disposals | – | – | 678 | – | 678 |
| **Accumulated amortisation as at 31 December 2019** | **–** | **(4,653)** | **(31,550)** | **(122)** | **(36,325)** |
| Amortisation provided during the year | – | (7,366)) | (679) | – | (8,045) |
| Impairment provided during the year | – | – | (1,475) | – | (1,475) |
| Disposals | – | – | 54 | 122 | 176 |
| **Accumulated amortisation and impairment as at 31 December 2020** | – | **(12,019)** | **(33,650)** | **0** | **(45,669)** |

| Book value | Brand | Customer list | Software | Licences | Total |
|---|---|---|---|---|---|
| in € thousand | | | | | |
| **As at 31 December 2019** | **66,007** | **83,734** | **2,288** | **62** | **152,091** |
| **As at 31 December 2020** | **66,007** | **76,368** | **413** | **0** | **142,788** |

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 eleven years.

Following the successful migration of LOTTO24 AG customers to the common platform of the ZEAL Group in late 2020, the former LOTTO24 platform was no longer used for these customers. Therefore, the Group took the decision to fully impair this software. The impairment recognised amounted to €1,475 thousand.

## 13 DEFERRED TAXATION

| Deferred tax asset movement schedule | **2020** | 2019 |
|---|---|---|
| in € thousand | | |
| **At 1 January** | **18,474** | **627** |
| Addition on acquisition of subsidiary | – | 16,221 |
| Credited/(charged) to Consolidated Income Statement | 1,622 | 1,626 |
| **At 31 December** | **16,852** | **18,474** |

| Deferred tax assets | Fixed asset allowances | Tax losses carried forward | Other temporary differences | **Total** |
|---|---|---|---|---|
| in € thousand | | | | |
| **At 1 January 2019** | **37** | **250** | **340** | **627** |
| Addition on acquisition of subsidiary | – | 15,136 | 1,086 | 16,221 |
| Credited/(charged) to Consolidated Income Statement | (37) | 1,481 | 182 | 1,626 |
| **At 1 January 2020** | **–** | **16,867** | **1,608** | **18,474** |
| Credited/(charged) to Consolidated Income Statement | – | (1,415) | (208) | 1,622 |
| **At 31 December 2020** | **–** | **15,542** | **1,400** | **16,852** |

| Deferred tax liabilities | Temporary differences | **Total** |
|---|---|---|
| in € thousand | | |
| **At 1 January 2019** | **–** | **–** |
| Additions on acquisition of subsidiary | (54,345) | (54,345) |
| **Charged to Consolidated Income Statement** | **1,089** | **1,089** |
| At 1 January 2020 | (53,256) | (53,256) |
| Credited/(charged) to Consolidated Income Statement | 2,555 | 2,555 |
| **At 31 December 2020** | **(50,701)** | **(50,701)** |

Deferred tax assets due to timing differences mainly result from the recognition of deferred taxes on loss carryforwards of €15,452 thousand (2019: €16,867 thousand) and from timing differences of IFRS 16 lease liabilities of €1,148 thousand (2019: €1,285 thousand).

Deferred tax liabilities mainly result from the recognition of intangible assets acquired in the course of the takeover of LOTTO24 AG amounting to €46,005 thousand (2019: €48,967 thousand) and from the different valuations of goodwill under IFRS and tax law amounting to €3,447 thousand (2019: €3,042 thousand) as well as from the recognition of a right of use asset under IFRS 16 amounting to €1,090 thousand (2019: €1,247 thousand).

Total tax losses carried forward amount to €61,120 thousand as of 31 December 2020 (2019: €76,626 thousand). The tax losses predominately arose in the UK, Germany and Spain. The tax losses do not expire. With the exception of €47,209 thousand relating to LOTTO24 AG corporate tax and the €1,600 thousand relating to Ventura 24 corporate tax, deferred tax assets have not been recognised in respect of these losses as there is currently uncertainty as to whether the related entities will generate sufficient taxable profit in the future against which the losses could be utilised.

As of December 31, 2020, the temporary difference between net assets and the tax bases of subsidiaries and associated companies (outside basis differences) amount to €113 million (2019: €125 million). Accordingly, €1.8 million (2019: €2.0 million) in deferred tax liabilities were not recognised as ZEAL is able to control the timing of their reversal and the temporary difference will not reverse in the foreseeable future.

## 14 OTHER INVESTMENTS

| | 2020 | 2019 |
|---|---|---|
| in € thousand | | |
| **Balance as at 1 January** | **4,137** | **3,433** |
| Additions | – | 170 |
| Transfers | (58) | (113) |
| Fair value adjustment through OCI | 511 | 647 |
| *thereof Furlong Gaming Limited* | – | 0 |
| *thereof De Integro Limited* | – | (133) |
| *thereof Omaze Inc.* | 416 | 603 |
| *thereof Pick Media Limited* | 95 | 177 |
| **Balance as at 31 December** | **4,588** | **4,137** |

ZEAL holds investments in Omaze Inc ('Omaze'), Pick Media Limited ('Pick my Postcode' or 'PMP') and De Integro Limited ('The Dream Makers'). On adoption of IFRS 9, as the investments were acquired for long term strategic purposes, they were designated FVOCI.

**Furlong Gaming Limited**

In April 2019, the Group invested €58 thousand in Furlong Gaming Limited. This is a start-up business based in the UK and operating a prize competition aimed at customers interested in horse racing. In 2020, the Group acquired an additional 4.8% interest in Furlong and reclassified it to an investment in an associate.

**De Integro Limited**

On 19 December 2018, the Group acquired a 10% interest in De Integro Limited which is located in the UK and operated under The Dream Makers brand. Cash consideration of €132 thousand (£120 thousand) was paid for 10% of the ordinary shares. The Dream Makers is a travel-deal subscription business which gives customers the chance to win amazing holiday experiences.

At 31 December 2019, the Group determined that the carrying value of the investment was no longer supported by its expected future cash flows. For this reason, the investment was written down to nil. De Integro Limited stopped operating The Dream Makers business in 2020.

**Omaze, Inc.**

On 1 May 2017, the Group made a cash investment of €1,843 thousand (USD $2,000 thousand) in Los Angeles based start-up Omaze. Omaze is disrupting charitable giving by offering once-in-a-lifetime experiences and exclusive merchandise in support of critical causes. The Group received preferred shares representing a 2.5% interest, an observer seat in the Administrative Board and various rights to protect its shareholding. An additional investment of €112 thousand (USD $126 thousand) was made in April 2019, in order to maintain the Group's 2.5% interest during a financing round. In 2020, the Group's interest decreased to 2.3% as a result of dilution.

**Pick Media Limited**

In December 2016, the Group acquired for €1,198 thousand (£1,000 thousand), a 10% interest in Pick Media Limited. Pick Media Limited organises free daily lotteries including the world's largest free ad-funded daily lottery, Pick My Postcode.

**Valuation of investments**

The valuation of investments is based on the market price if it is available. For Omaze, the last price available was the one measured during the last investment round in March 2020. For PMP, as no recent market price was available, the fair value of the investments was calculated using a discounted cash flow model to determine the fair value (enterprise value) of the underlying businesses that ZEAL has invested in. The fair value of ZEAL's share of each business has been measured using an option pricing model (OPM). The option pricing model allocates the enterprise value of the investment amongst the individual shareholders, to determine the fair value of their investment.

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

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

| Valuation technique | Significant unobservable input | Range | Sensitivity of the input to fair value |
|---|---|---|---|
| OPM | Volatility | 25% | A 5% increase (decrease) in the volatility would result in a decrease (increase) in fair value of €77 thousand (€53 thousand). |

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

| Valuation technique | Significant unobservable input | Range | Sensitivity of the input to fair value |
|---|---|---|---|
| OPM | WACC | 20% | 5% increase (decrease) in the WACC would result in a decrease (increase) in fair value of €11 thousand (€0 thousand). |

There was no dividend income from any investment in 2020 (2019: nil).

## 15 SHARES IN ASSOCIATED COMPANIES

The Group has placed investments in three associated companies: Furlong Gaming Limited, Cloud Canyon Limited and TH Travel Limited.

**Furlong Gaming Limited**

The Group increased its investment in Furlong from 20% at 31 December 2019 to 24.8% on 10 January 2020. Following the increase, the investment is accounted for as an investment in an associate using the equity method in the Consolidated Financial Statements. The carrying amount as at 31 December 2020 amounted to €223 thousand and the share of the loss for 2020 was €71 thousand.

**Cloud Canyon Limited**

On 26 July 2018, the Group invested €113 thousand (£100 thousand) for a 5% interest in Cloud Canyon Limited. Cloud Canyon Limited owns and operates various online competition sites including wshful.com (lottery syndicates) and odurn.com (charity raffles in the luxury fashion sector). In 2019, the Group increased its investment in Cloud Canyon Limited from 5% to 20%. Following the increase, the participation is accounted for as an investment in an associate using the equity method in the Consolidated Financial Statements. At 31 December 2020, it was determined that the carrying value of Cloud Canyon Limited was no longer supported by its expected future cash flows. The previously existing carrying amount was therefore impaired by € 418 thousand. The impairment loss was recognised in expenses from financial activities. The carrying amount as at 31 December 2020 amounted to €0 thousand (2019: €452 thousand) and the share of loss for 2020 amounted to €34 thousand (2019: €12 thousand).

**TH Travel Limited**

The Group invested €177 thousand to acquire 33% of TH Travel Limited in December 2019. TH Travel Limited operates under the DAYMADE brand, formerly TripHunters, which is a millennial prize platform with a focus on travel and local experiences. On 2 June 2020, the Group invested an additional €141 thousand and now owns 35.2% of the company. The carrying amount as at 31 December 2020 amounted to €210 thousand (2019: €177 thousand) and the share of loss for 2020 amounted to €108 thousand (2019: €0 thousand).

## 16 OTHER CURRENT FINANCIAL ASSETS

Other current financial assets include the following:

| | 2020 | 2019 |
|---|---|---|
| in € thousand | | |
| Receivables from gaming operations | 11,481 | 12,954[1] |
| Security retainers | 2,612 | 1,433 |
| Other | 369 | 221[1] |
| **Other current financial assets** | **14,462** | **14,608** |

*[1] Because of the Business Model Change, receivables from the players were disclosed as trade receivables in 2020. Moreover, the net investment in finance lease was disclosed separately. The figures disclosed in the notes to the Consolidated Financial Statements in 2019 were restated accordingly.*

Receivables from gaming operations include receivables from customer winnings to be remitted as well as receivables from ongoing payment processing and own brokerage commission. The security retainers include, in particular, security deposits to the state lottery organisers.

As in the previous year, all current financial assets have a remaining term of less than one year. No impairment losses were recognised as at the balance sheet date, as no significant losses were expected. In the previous year, no impairments were made either, as no default had occurred as at the balance sheet date. The COVID-19 pandemic does not lead to an increased default risk as the lottery business was not negatively affected (further details are provided in note 2.1.4).

## 17 OTHER ASSETS

Other non-current assets include the following:

| | 2020 | 2019 |
|---|---|---|
| in € thousand | | |
| Receivables from the tax authorities | 56,469 | – |
| **Other non-current assets** | **56,469** | **–** |

Following an agreement of myLotto24 with the tax authority Hannover-Nord in December 2019, myLotto24 made an interim VAT payment of €54,316 thousand on the disputed VAT liability to the German tax authorities in January 2020. The payment was made to eliminate the risk of potential fines for late payment of taxes and to significantly reduce the amount of potential interest payments. The Management Board assumes that it is more likely than not that the finance court will settle the case in the favour the Group. In this case, the VAT paid plus interest would be refunded to myLotto24.

The Group recognised an asset for this payment. The effective interest rate used to measure the asset is 4.33% and takes into account the interest rate applied by the tax authority (currently 6% p.a.), a waiting period of 15 months (from the end of the year when the VAT was due according to the tax authority) as required by German tax law, and an estimated date of repayment on 30 June 2022. The present value of the receivable from the tax authority at 31 December 2020 amounts to €56,469 thousand.

Other current assets include the following:

| | 2020 | 2019 |
|---|---|---|
| in € thousand | | |
| VAT receivable | 300 | 312 |
| **Other current assets** | **300** | **312** |

All other current assets are due in less than one year.

See note 31.2 for an explanation of the ECL models applied.

## 18 CASH, CASH EQUIVALENTS AND PLEDGED CASH

| | 2020 | 2019 |
|---|---|---|
| in € thousand | | |
| Bank balances | 52,678 | 79,208 |
| Cash on hand | 1 | 2 |
| Pledged cash | 3,139 | 4,484 |
| Short term deposits | 30,243 | 69,586 |
| **Cash, cash equivalents and pledged cash** | **86,061** | **153,280** |

Total cash and cash equivalents on 31 December 2020 were €86,061 thousand (2019: €153,280 thousand).

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

Included within the bank balances of €52,678 thousand (2019: €79,208 thousand) is an amount of €14,282 thousand (2019: €13,575 thousand) to cover customer liabilities. Pledged cash is €3,139 thousand (2019: €4,484 thousand). This cash is pledged as a requirement in regards to our Czech and Norwegian gambling licences.

At 31 December 2020, the ZEAL Group held shares in short-term deposits amounting to €30,243 thousand (2019: €69,586 thousand). At 31 December 2019, the ZEAL Group also held investments in short-term equity funds amounting to € 2,925 thousand which are excluded from the cash and cash equivalents balance in line with IAS 7. A change in fair value of a €188 thousand gain (2019: loss of €88 thousand) was recognised in the Consolidated Income Statement.

Movements in shares in equity funds and shares in short-term deposits in the period are as follows:

| | 2020 | 2019 |
|---|---|---|
| in € thousand | | |
| **Balance at 1 January** | **72,511** | **12,894** |
| *thereof cash equivalents* | 69,586 | 0 |
| *thereof shares in equity funds* | 2,925 | 12,984 |
| Acquired | 18,512 | 74,805 |
| Sold | (60,968) | (15,099) |
| Fair value movement | 188 | (88) |
| **Balance at 31 December** | **30,243** | **72,511** |
| *thereof cash equivalents* | 30,243 | 69,586 |
| *thereof shares in equity funds* | – | 2,925 |

## 19 OTHER FINANCIAL AND NON-FINANCIAL LIABILITIES

### 19.1 OTHER FINANCIAL LIABILITIES

Other non-current financial liabilities include the following:

| **Non-current** | **2020** | 2019 |
|---|---|---|
| in € thousand | | |
| Liabilities to customers | 1,270 | – |
| **Total other non-current liabilities** | **1,270** | **–** |

The non-current liabilities to customers amounting to € 1,270 thousand relate to the present value of future payments to be made to the jackpot winner of the freiheit+ charity lottery.

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

Other current financial liabilities include the following:

| **Current** | **2020** | 2019 |
|---|---|---|
| in € thousand | | |
| Liabilities to customers and game brokers | 20,175 | 21,455 |
| Liabilities from gaming duty | – | 9 |
| **Liabilities from gaming operations** | **20,175** | **21,464** |
| | | |
| **Total other current financial liabilities** | **20,175** | **21,464** |

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

### 19.2 OTHER LIABILITIES

Other current liabilities include the following:

| **Current** | **2020** | 2019 |
|---|---|---|
| in € thousand | | |
| **Deferred revenue** | **–** | **24** |
| | | |
| VAT | 1,076 | 1,835 |
| Employee benefits | 4,670 | 3,501 |
| Payroll related taxes and social security payable | 226 | 936 |
| Other current liabilities | 781 | 917 |
| **Total other current liabilities** | **6,753** | **7,213** |

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

## 20 PROVISIONS

| | Opening balance 01.01.2020 | Utilised | Transfer | Release | Additions | **Closing balance 31.12.2020** |
|---|---|---|---|---|---|---|
| in €k | | | | | | |
| Provisions for litigation | 670 | (40) | – | (200) | 500 | 930 |
| Provisions for closure of Ventura24's B2C business | 102 | 102 | – | – | – | – |
| Provision for severance costs | 5,790 | (4,261) | – | (1,111) | 699 | 1,117 |
| Provisions for onerous contracts | – | – | – | – | 217 | 217 |
| **Total short-term provisions** | **6,562** | **(4,403)** | **–** | **(1,311)** | **1,416** | **2,264** |
| Provisions for share-based payments | 1,026 | – | (612) | – | 1,655 | 2,069 |
| Provision for Austrian gaming duty | 2,087 | – | – | – | – | 2,087 |
| Provisions for dismantling obligations | 273 | – | – | (84) | – | 189 |
| **Total long-term provisions** | **3,386** | **–** | **(612)** | **(84)** | **1,655** | **4,345** |
| **Total provisions** | **9,948** | **(4,403)** | **(612)** | **(1,395)** | **3,072** | **6,609** |

**Provisions for litigation**

In total, provisions for litigation amounted to €670 thousand in the previous year. In the fiscal year, €40 thousand was used, €200 thousand was released due to an expected cost-reducing situation and €500 thousand was added, resulting in a current balance of €930 thousand.

**Provisions for closure of Ventura24's B2C business**

The provision at 31 December 2019 related to the remaining probable eventual cash outflow resulting from the closure of Ventura24's B2C business. It could be broken down between; employee related expenses including redundancy packages and other closure costs. At 31 December 2020, the provision has been spent as affected employees have left the business.

**Provision for severance costs**

The severance provision relates to redundancy and other costs associated with the Group's decision to restructure the business ahead of the acquisition of LOTTO24 AG. A large part of the provision has been utilised in 2020 as most affected employees have left the business and the remaining part is expected to be spent in 2021.

**Provision for onerous contracts**

The provision for onerous contracts amounting to €217 thousand relates to service charges and other costs related to empty offices rented by the Group in London. The provision is expected to be spent in the following year.

**Provisions for share based payment**

The Group operates a long-term incentive plan arrangement for certain employees. Further details are disclosed in note 24 to the Consolidated Financial Statements. The compensation to be paid in 2021 under this programme has been transferred to other current liabilities.

**Provision for Austrian gaming duty**

The provision for €2,087 thousand at 31 December 2020 (2019: €2,087 thousand) represents the Management Board's best estimate of the probable eventual cash outflow resulting from tax investigations. In the 2020 fiscal year, no more revenue was generated from the secondary lottery business. Against this background and because the risk of a cash outflow still exists, there is no change compared to the previous year. The Management Board expects expects the cash outflow to occur after more than one year and has therefore classified the provision as non-current.

**Provision for dismantling obligations**

The provision for €189 thousand at 31 December 2020 (2019: €273 thousand) represents the Management Board's best estimate of the probable eventual cash outflow resulting from the expiry of the Group's office leases. The provision covers the estimated cost of the contractual obligation to return the offices to their state at the origination of the lease.

# 21 EQUITY

## 21.1 SHARE CAPITAL

The Company's share capital consists of 22,396,070 ordinary shares issued and fully paid (2019: 22,396,070). Shares have a €1 par value. With the exception of treasury shares held by the Company, each share has the right to dividends and there are no preference shares or restrictions.

## 21.2 AUTHORISED CAPITAL

Pursuant to section 4 (2) of the Articles of Association, the Management Board is authorised – with the approval of the Supervisory Board to increase the share capital on one or more occasions, on or before 21 June 2021 by up to a total of € 1,197,017 by issuing new no-par value shares against cash or non-cash contributions, in whole or in part, and – with the approval of the Supervisory Board – to exclude shareholders' subscription rights under certain conditions and within defined limits (Authorised Capital 2019).

## 21.3 SHARE PREMIUM

The balance on the share premium account represents the amounts received in excess of the nominal amount of the ordinary shares. Share premium amounted to €280,132 thousand at 31 December 2020 (2019: €280,132 thousand).

## 21.4 NON-CONTROLLING INTEREST

In 2019, following the acquisition of LOTTO24 AG, the Group recognised a non-controlling interest. This is the proportion of equity of LOTTO24 AG, Hamburg, Germany which is not attributable to the ZEAL Group but is instead attributable to the holders of the 6.6% non-controlling interest (2019: 6.8%).

In line with the requirements of IFRS 12, the Group has disclosed the key financial information of LOTTO24 AG, as a standalone company at 31 December 2020.

| | **2020** | 2019 |
|---|---|---|
| in € thousand | | |
| Current assets | 38,803 | 37,492 |
| Non-current assets | 158,504 | 170,955 |
| Equity | 120,381 | 121,126 |
| Current liabilities | 27,594 | 34,740 |
| Non-current liabilities | 49,338 | 52,581 |
| Revenue | 88,088 | 44,098 |
| EBITDA | 9,730 | 5,501 |
| EBIT | 8,641 | 3,979 |
| **Net profit/Total comprehensive income** | **5,571** | **4,962** |

| | **2020** | 2019 |
|---|---|---|
| in € thousand | | |
| Cash flow from operating activities | 8,253 | 8,727 |
| Cash flow from investing activities | (261) | (659) |
| Cash flow from financing activities | (706) | (587) |
| Change in available funds | 7,287 | 7,481 |

## 21.5 TREASURY SHARES

With a resolution of the Annual General Meeting on 27 July 2018, the Company was authorised to acquire 43,910 treasury shares in the period up to 31 December 2018 at a price of €43.34 per share. The Management Board has made full use of the authorisation. This resulted in the acquisition of 43,910 treasury shares at a price of €43.34 per share resulting in a total purchase price of €1,903 thousand in 2018.

In 2020, the Group sold 7,195 treasury shares to its employees for a market price of €22.05 per share. The related personnel expenses amount to €185 thousand.

## 21.6 EARNINGS PER SHARE

Earnings per share (basic and diluted) was €0.37 (2019: €0.09) per share for the year ended 31 December 2020.

The weighted average number of shares was 22,357,556 (2019: 17,098,042).

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

Diluted earnings per share is calculated by dividing net profit or loss for the period attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year (increased to account for the diluting effects from stock options, warrant agreements or any other plans in place at the Consolidated Statement of Financial Position date, which may lead to the issuance of an additional number of shares in the future). In fiscal year 2020, there was no dilutive effect as there were no such programs (2019: no dilutive effect).

## 21.7 OTHER RESERVES

Other reserves at 31 December 2020 amount to €1,385 thousand (2019: €874 thousand).

Other reserves include: the legal reserve in Ventura24 of €82 thousand (2019: €82 thousand) and the cumulative fair value movement in equity instruments (as recorded within other investments) of €1,303 thousand (2019: €792 thousand).

## 21.8 FOREIGN CURRENCY TRANSLATION RESERVE

At 31 December 2019, the foreign currency translation reserve records amounted to €164 thousand and related to exchange differences arising from the translation of the financial statements of foreign operations. As a result of the deconsolidation of these subsidiaries, the Group reclassified this remaining amount from other comprehensive income to the income statement in the fiscal year 2020.

## 21.9 RETAINED EARNINGS

Retained earnings represents 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

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

| Name and registered office | Country | Principal activities | Nature of relationship with ZEAL | % effective interest | |
|---|---|---|---|---|---|
| | | | | **2020** | 2019 |
| myLotto24 Limited<br>Suite 1, 3rd Floor 11-12 St. James's Square, London, SW1Y 4LB | UK | Lottery | Subsidiary | 100 | 100 |
| Tipp24 Services Limited<br>49 Clerkenwell Green<br>London EC1R 0EB | UK | Support services | Subsidiary | 100 | 100 |
| Tipp24 Deutschland GmbH<br>Burchardstraße 22<br>MBE 311 20095 Hamburg | Germany | Lottery | Subsidiary | 100 | 100 |
| Lottovate Deutschland GmbH<br>Kurze Muehren 1<br>20095 Hamburg | Germany | Lottery | Subsidiary | 100 | 100 |
| Ventura24 S.L.U.[1]<br>Leganitos 47<br>28013 Madrid | Spain | Lottery | Subsidiary | 100 | 100 |
| Ventura24 Games S.A.[2]<br>Leganitos 47<br>28013 Madrid | Spain | Dormant | Subsidiary | – | 100 |
| Smartgames Technologies Limited<br>Suite 1, 3rd Floor 11–12 St. James's Square, London, SW1Y 4LB | UK | Support services | Subsidiary | 100 | 100 |
| Lottovate Limited<br>5th Floor One New Change,<br>London, EC4M 9AF | UK | Lottery | Subsidiary | 100 | 100 |
| ZEAL International Limited[3]<br>5th Floor One New Change,<br>London, EC4M 9AF | UK | In liquidation | Subsidiary | 100 | 100 |
| Lottovate Nederland B.V.[4]<br>Herengracht 124<br>1015 BT Amsterdam | Netherland | Sold | Subsidiary | – | 100 |
| Tipp24 Investment 1 Limited[3]<br>5th Floor One New Change,<br>London, EC4M 9AF | UK | In liquidation | Subsidiary | 100 | 100 |
| Tipp24 Investment 2 Limited[3]<br>5th Floor One New Change,<br>London, EC4M 9AF | UK | In liquidation | Subsidiary | 100 | 100 |

| Name and registered office | Country | Principal activities | Nature of relationship with ZEAL Network | % effective interest 2020 | 2019 |
|---|---|---|---|---|---|
| Lotto Network Limited[3] 5th Floor One New Change, London, EC4M 9AF | UK | In liquidation | Subsidiary | 100 | 100 |
| eSailors Limited Suite 1, 3rd Floor 11-12 St. James's Square, London, SW1Y 4LB | UK | Holding company | Subsidiary | 100 | 100 |
| Schumann e.K. Straßenbahnring 11 20251 Hamburg | Germany | Lottery | Subsidiary | – | – |
| Geonomics Global Games Limited[3] 5th Floor One New Change, London, EC4M 9AF | UK | In liquidation | Subsidiary | 100 | 100 |
| Geo24 UK Limited[3] 5th Floor One New Change, London, EC4M 9AF | UK | In liquidation | Subsidiary | 100 | 100 |
| Gratis Lotto Limited Suite 1, 3rd Floor 11–12 St. James's Square, London, SW1Y 4LB | UK | In liquidation | Subsidiary | 100 | 100 |
| myLotto24 South Africa Pty Ltd 7 Martin Hammerschlag Way, Foreshore, Cape Town, 8001 | South Africa | In liquidation | Subsidiary | 100 | 100 |
| Tipp24 Services Ltd[3] (Malta) 93 Mill Street, QORMI QRM 3102 | Malta | In liquidation | Subsidiary | 100 | 100 |
| myLotto24 Ltd (Malta) 93 Mill Street, QORMI QRM 3102 | Malta | Support services | Subsidiary | 100 | 100 |
| ZEAL International Limited (Malta) 85 St John Street, Valletta, VLT 1165 | Malta | In liquidation | Subsidiary | 100 | 100 |
| LOTTO24 AG Straßenbahnring 11 20251 Hamburg | Germany | Lottery brokerage | Subsidiary | 93 | 93 |

[1] *The company name of Ventura24 S.L.U. is being changed to Zeal Iberia S.L.U.*

[2] *This subsidiary was sold on 24 July 2020. See below.*

[3] *Deconsolidated company*

[4] *This subsidiary was sold on 28 February 2020. The deconsolidation had no material influence on the Consolidated Financial Statement.*

**Disposal of Ventura24 Games S.A.**

The Group sold the company Ventura24 Games S.A on 24 July 2020. As part of this sale, ZEAL received cash consideration of €1,300 thousand. At the disposal date, Ventura24 Game S.A had cash and cash equivalents of €1,000 thousand. The carrying amount of the Company's intangible assets at the date of disposal was €51 thousand. The total carrying amount of all other assets and all liabilities of the Company was less than € 1 thousand.

**Section 479A audit exemption**

Smartgames Technologies Limited (Company no. 06418203), Lottovate Limited (Company no. 08316397) and eSailors Limited (Company no. 08840246) will take the exemption available by virtue of section 479A of the UK Companies Act 2006, which exempts them of the requirements of an audit of their individual accounts.

**Section 480 audit exemption**

Tipp24 Investment 1 Limited (Company no. 08316353), Tipp24 Investment 2 Limited (Company no. 08467763), Lotto Network Limited (Company no. 08285053), Geonomics Global Games Limited (Company no. 08316353), Geo24 UK Limited (Company no. 07428898), Gratis Lotto Limited (Company no. 09984098) and ZEAL International Limited (Company no. 10488774) will take the exemption available by virtue of section 480 of the UK Companies Act 2006, which exempts dormant companies of the requirements of an audit of their individual accounts.

## 23 PERSONNEL EXPENSES

The table below shows the full time equivalent average number of employees (without students and temps) over the year.

| Director and employee numbers | 2020 | 2019 |
|---|---|---|
| Management Board | 2 | 2 |
| General managers | 3 | 5 |
| Employees | 153 | 186 |
| Trainees | 3 | 6 |
| **Total** | **161** | **200** |

Personnel expenses incurred during 2020 are included in the table below:

| | 2020 | 2019 |
|---|---|---|
| in € thousand | | |
| Salaries | 19,488 | 19,462 |
| Pension contributions | 194 | 443 |
| Social security contributions | 2,188 | 3,059 |
| **Total personnel expenses** | **21,870** | **22,964** |

These figures include remuneration for the Management Board, further details of which are in included in the Remuneration Report as part of the Management Report on pages 56 to 59.

Personnel expenses associated with the Group restructure have been disclosed in non-recurring expenses and income and further detail can be found in note 7. During 2020, €4,363 thousand (2019: €1,740 thousand) of these severance costs were paid and €38 thousand (2019: €145 thousand) of social security costs were paid.

## 24 SHARE-BASED PAYMENTS

The Group operates a long-term incentive plan arrangement for certain employees. The scheme provides a cash payment to the employees, which is based on an individual base amount, which is broken down into a number of virtual shares by using the volume weighted average share price of ZEAL in XETRA trading on the Frankfurt Stock Excha in the last three months before the reporting date of the year in which the scheme is granted. The contribution becomes payable after 3 years, whereas vesting occurs after 1 year. The final pay-out is valued using the individual virtual shares multiplied by the average share price of the last 3 months of the third year.

The provision is valued during the holding period using the last available share price (less expected dividends over the remaining term) multiplied with the individual number of virtual shares. The cash payment has no exercise price and therefore the weighted average exercise price in all cases is €nil.

The carrying amount of the liability relating to the long-term incentive plan at 31 December 2020 was €4,061 thousand (2019: €1,619 thousand), of which €1,992 thousand (2019: €593 thousand) correspond to virtual shares exercisable as at 31 December 2020 and are recognised as other current liabilities for employee benefits. The total expense recognised for the long-term incentive plan was €3,042 thousand (2019: €893 thousand). Movements in the number of virtual shares awarded can be found below.

| | **2020** | 2019[1] | 2019 Board |
|---|---|---|---|
| in € thousand | | | |
| Outstanding at the beginning of the year | 96,694 | 64,074 | 40,889 |
| Granted during the year | 53,765 | 52,249 | 39,071 |
| Exercised in the year | (10,496) | (8,405) | (5,217) |
| Forfeited in the year | (4,914) | (11,225) | (66,059) |
| **Outstanding at the end of the year** | **135,049** | **96,694** | **40,889** |
| **Exercisable at 31 December[2]** | **32,209** | **10,496** | **6,683** |

*[1] The 2019 numbers have been restated to include the number of virtual shares of non-board members*

*[2] The number of exercisable shares which should have been disclosed for the board at 31 December 2019 is 6,683 instead of 13,366.*

The weighted average remaining contractual life of the outstanding awards is 1.15 years (2019: 1.43 years).

## 25 LEASES

### 25.1 AS A LESSEE

The Group leases assets including office space and machinery.

The Group leases office space in London. The lease ends in July 2028, however under the terms of the lease the Group can terminate early in July 2025. The Group expects to exercise the early termination option and the IFRS 16 calculation has been prepared based on the lease ending in 2025.

The Hamburg offices leases contain a clause that annually increases by the consumer price index for Germany as determined by the Federal Statistical Office (base 2010 = 100) compared to the status in the month of the start of lease ('first basis month'). Annually, the rent increases by index changes between the last adjustment-based index status and the index status in the last month of the elapsed rental year. In line with the requirements of IFRS 16 the variable payments have been included in the calculation of the initial lease liability and right of use asset, based on the CPI rate on the date the contract was entered into. The lease liability and right of use asset are annually adjusted once the change in rent is known. The Group has no other variable lease payments based on an index.

Information about leases for which the Group is a lessee are presented below:

| Cost | Property | Office equipment | Total |
|---|---|---|---|
| in € thousand | | | |
| **Balance as at 1 January 2019** | **6,892** | **43** | **6,935** |
| Additions | 4,312 | 14 | 4,326 |
| Disposals | (1,424) | (31) | (1,455) |
| **Balance as at 1 January 2020** | **9,780** | **26** | **9,806** |
| Additions | 67 | – | 67 |
| Disposals | (3,545) | (26) | (3,571) |
| **Balance as at 31 December 2020** | **6,302** | **–** | **6,302** |

| Accumulated depreciation and impairment | Property | Office equipment | Total |
|---|---|---|---|
| in € thousand | | | |
| **Accumulated depreciation as at 1 January 2019** | **–** | **–** | **–** |
| Depreciation provided during the year | (1,733) | (38) | (1,771) |
| Disposals | 418 | 25 | 443 |
| **Accumulated depreciation as at 31 December 2019** | **(1,315)** | **(13)** | **(1,328)** |
| Depreciation provided during the year | (1,256) | – | (1,256) |
| Impairment provided during the year | (243) | – | – |
| Disposals | 1,025 | 13 | 1,038 |
| **Accumulated depreciation as at 31 December 2020** | **(1,788)** | **–** | **(1,788)** |

| Book value | Property | Office equipment | Total |
|---|---|---|---|
| in € thousand | | | |
| **As at 31 December 2019** | **8,465** | **13** | **8,478** |
| **As at 31 December 2020** | **4,513** | **–** | **4,513** |

In November 2020, the Group entered in an agreement with the lessor to terminate the lease of a part of its German offices which was neither used, nor sublet. Following this agreement, the lease liability and the right-of-use assets were adjusted to take into account the new expected lease payment for the building. Then, the Group recorded an impairment charge of €243 thousand in relating to the remaining right-of-use asset.

The Group has recognised lease liabilities on the face of the Consolidated Statement of Financial Position. The table below shows the maturity analysis of the contractual undiscounted lease payments.

| | 2020 | 2019 |
|---|---|---|
| in € thousand due in | | |
| Less than one year | 1,741 | 2,449 |
| One to five years | 5,800 | 6,982 |
| More than five years | 1,136 | 1,875 |
| **Total** | **8,678** | **11,306** |

The following amounts have been recognised in the Consolidated Income Statement:

| | **2020** | 2019 |
|---|---|---|
| in € thousand | | |
| Interest on lease liabilities | (330) | (388) |
| Expenses relating to leases of low value assets, excluding short-term leases of low value items | (25) | (67) |
| Depreciation and impairment on right of use assets | (1,498) | (1,771) |

The effect on cash flow was as follows:

| | **2020** | 2019 |
|---|---|---|
| in € thousand | | |
| Cash flow from operating activities | – | – |
| Cash flow from financing activities | (2,983) | (2,312) |

## 25.2 AS A LESSOR

### Operating leases

The Group also generated income from a sublease, which was classified as an operating lease, as not all of the risks and rewards of ownership of the underlying asset were not substantially transferred. During the year the Group earned income of €541 thousand from this sublease (2019: €464 housand). This sublease expired in 2020.

### Finance leases

Since December 2019, the Group subleases part of its German office, which is classified as a finance lease. A short-term net investment in finance lease balance of €392 thousand and a long-term net investment in finance lease balance of €654 thousand have been recognised.

In March 2020, the Group entered into an agreement to sublease the remaining part of its London office. This lease is classified as a finance lease as the risks and rewards of ownership were substantially transferred. As a result, the Group released the corresponding right of use asset, amounting to 2,410 thousand and recognised a net investment in finance lease balance of €3,481 thousand (€432 thousand short term and €3,049 long-term). This resulted in a gain on disposal of €1,071 thousand.

In 2020, the Group recognised an interest income from these sub-leases of € 138 thousand (2019: nil).

In 2020, the Group recognised a finance income of €1,209 thousand from these subleases (2019: nil) of which €1,071 thousand relate to the disposal of the right-of-use asset and the initial measurement of the lease asset from the finance lease of the London office.

The following table sets out a maturity analysis of payments from finance leases as of 31 December 2020, showing the undiscounted lease payments to be received after the reporting date.

| **2020** | Future payment from finance lease | Unrealised finance income (compounding) | Present value of the lease payment at the balance sheet date |
|---|---|---|---|
| in € Tsd. | | | |
| In the first year | 1,347 | (122) | 1,225 |
| **Short term net investment in finance lease** | **1,347** | **(122)** | **1,225** |
| In the second year | 998 | (78) | 921 |
| In the third year | 625 | (51) | 573 |
| In the fourth year | 824 | (23) | 800 |
| In the fifth year | 157 | (1) | 156 |
| **Long-term net investment in finance lease** | **2,604** | **(154)** | **2,450** |
| **Total** | **3,951** | **(276)** | **3,675** |

| 2019 | Future payment from finance lease | Unrealised finance income (compounding) | Present value of the lease payment at the balance sheet date |
|---|---|---|---|
| in € Tsd. | | | |
| In the first year | 506 | (114) | 392 |
| **Short term net investment in finance lease** | **506** | **(114)** | **392** |
| In the second year | 525 | (69) | 456 |
| In the third year | 174 | (1) | 173 |
| In the fourth year | – | – | – |
| In the fifth year | – | – | – |
| **Long-term net investment in finance lease** | **699** | **70** | **629** |
| **Total** | **1,205** | **(184)** | **1,021** |

## 26 DIVIDENDS

Due to the continuing positive liquidity situation of the ZEAL Group in 2020 and the expected further increasing profitability, we will propose a total amount of pay-out of €20.2 million (2019: €17.9 million) to the Annual General Meeting on 4 June 2021. This corresponds to a dividend of €0.90 per share for the fiscal year 2020 (2019: €0.80).

Cash flows from dividends paid are classified under financing activities in the Consolidated Statement of Cash Flows and the dividends paid are deducted from retained earnings in the Consolidated Statement of Changes in Equity.

## 27 COMMITMENTS AND CONTINGENCIES

### CONTINGENT LIABILITIES

There is significant uncertainty as to whether VAT is due in respect of certain services provided by the myLotto24 Sub-Group to customers domiciled in the European Union from 1 January 2015. Furthermore, there is uncertainty in respect of the tax base to be applied in the event that it is ultimately determined that VAT is due on any of these services. Based on a thorough legal assessment, which included a review of the existing legal framework of relevant Member States and existing case law, the Management Board consider that the likelihood of outflow of economic resources is not probable and timing of associated financial impact is uncertain. Accordingly, the Management Board has not recorded any liability in the Consolidated Financial Statements. It is estimated that in the event that ZEAL is unsuccessful in its defence, the potential financial impact at 31 December 2020 would be €76.6 million (2019: €76.9 million) exclusive of tax impact.

The Fiscal Court of Hanover (*Finanzgericht Hannover*) had ruled on 19 November 2019 to uphold the appeal by myLotto24 against the assessment of VAT. In the meantime, the tax office has filed an appeal against the decision of the tax court.

Following an agreement of the ZEAL subsidiary myLotto24 with the tax authority Hannover-Nord in December 2019 myLotto24 made the corresponding interim VAT payment of €54.3 million to the German tax authorities in January 2020. Further details are provided in note 17 to the Consolidated Financial Statements.

Following the payment of €54.3 million in January 2020 (see note 17 to the Consolidated Financial Statements), the Group has avoided the risk of penalty payments and reduced the potential cash exposure to €22.3 million.

## 28 BUSINESS COMBINATION

### Acquisition of LOTTO24 AG

On 14 May 2019, the Group acquired 93.04% of the shares of LOTTO 24 AG, a listed German lottery brokerage business, in exchange for ZEAL shares. The Group acquired LOTTO24 AG in order to significantly de-risk its business model and to receive a permit for lottery brokerage in Germany.

#### *Consideration paid and the costs of acquisition*

ZEAL issued 14,010,982 shares as consideration to acquire 22,473,615 shares in LOTTO24 AG. The fair value of the shares is calculated with reference to the quoted price of ZEAL shares at the date of acquisition, which was €19.50 per share. The fair value of the consideration was therefore €273,214 thousand.

In 2019, transaction costs of €1,950 thousand were expensed and included in non-recurring expenses. The attributable costs of the issuance of the shares of €650 thousand have been charged directly to equity as a reduction in share premium.

***Assets acquired and liabilities assumed***

The fair value of the identifiable assets and liabilities of LOTTO24 AG at the date of acquisition are shown below:

| | Carrying value on acquisition | Fair value adjustments acquired intangibles | Fair value adjustments – goodwill | Fair value adjustments – deferred tax liability | Fair value recognised on acquisition |
|---|---|---|---|---|---|
| **Assets** in € thousand | | | | | |
| **Non-current assets** | | | | | |
| Property, plant and equipment | 1,244 | – | – | – | 1,244 |
| Intangible assets | 19,294 | 156,584 | (18,850) | – | 157,028 |
| Deferred tax assets | 16,223 | – | – | – | 16,223 |
| Right of use asset | 3,159 | – | – | – | 3,159 |
| **Total non-current assets** | **39,920** | **156,584** | **(18,850)** | **–** | **177,654** |
| **Current assets** | | | | | |
| Trade and other receivables | 315 | – | – | – | 315 |
| Other current assets and prepaid expenses | 7,098 | – | – | – | 7,098 |
| Cash and pledged cash | 9,348 | – | – | – | 9,348 |
| **Total current assets** | **16,761** | **–** | **–** | **–** | **16,761** |
| **Total assets** | **56,681** | **156,584** | **(18,850)** | **–** | **194,415** |
| **Liabilities** in € thousand | | | | | |
| **Non-current liabilities** | | | | | |
| Lease liability non-current | (2,810) | – | – | – | (2,810) |
| Deferred tax liabilities | (3,808) | – | – | (50,537) | (54,345) |
| Other financial liabilities (long term) | (1,791) | – | – | – | (1,791) |
| **Total non-current liabilities** | **(8,409)** | **–** | **–** | **(50,537)** | **(58,946)** |
| Lease liability | (326) | – | – | – | (326) |
| Trade payables | (3,459) | – | – | – | (3,459) |
| Other liabilities | (10,551) | – | – | – | (10,551) |
| Income tax liabilities | (58) | – | – | – | (58) |
| Provisions | (344) | – | – | – | (344) |
| **Total current liabilities** | **(14,738)** | **–** | **–** | **–** | **(14,738)** |
| **Total identifiable net assets at fair value** | **33,534** | **156,584** | **(18,850)** | **(50,537)** | **120,731** |
| Non-controlling interest | – | – | – | – | (8,403) |
| Goodwill arising on acquisition | – | – | – | – | 160,886 |
| **Purchase consideration transferred** | **–** | **–** | **–** | **–** | **273,214** |

The goodwill of €160,886 thousand comprises the expected cost savings and synergies arising from the acquisition and the Business Model Change that this facilitates. The savings in direct costs of operations account for around 60% of the overall cost synergies because all costs covering the risks of the secondary business on the German market were not required after the Business Model Change, and the amount of non-deductible VAT reduced within the myLotto24 Sub-Group. Furthermore, a reduction of personnel expenses and other operating expenses within the combined ZEAL and LOTTO24 AG Group represent around 40% of the overall cost synergies and result from removing business related duplicated roles enabled by the migration of the German broker businesses of the combined Group onto one technology platform, removing duplication of central functions roles, duplicates in senior management structure and roles related to hedging activities, rationalisation of the combined Group's locations, and reduction of consultancy expenses and professional fees based on de-duplication and changed requirements due to the Business Model Change.

The goodwill has been allocated entirely to the 'Germany' CGU. It is not deductible for income tax purposes.

In 2019, the following adjustments were recognised in the context of the purchase price allocation in relation to the acquired assets and liabilities of LOTTO24 AG:

1) The goodwill previously recognised in the LOTTO24 AG Statement of Financial Position was not taken over as it did not meet the capitalisation criteria under IFRS 3.
2) Acquired intangible assets with a fair value of €156,584 thousand were recognised on the acquisition of LOTTO24 AG. These can be broken down as follows: customer list valued at €88,387 thousand, brand valued at €66,007 thousand and software of €2,190 thousand.
3) In line with the requirements of IAS 12 a deferred tax liability of €50,537 thousand was recognised in respect of the taxable differences which arose following the recognition of the acquired intangible assets.

The fair value and gross amount of the acquired trade receivables was €315 thousand.

***Non-controlling interest***

ZEAL elected to measure its non-controlling interest in the acquiree using the proportionate share method. The net assets of LOTTO24 AG at the date of acquisition were €120,731 thousand, resulting in a non-controlling interest of €8,403 thousand. In June 2019, ZEAL acquired an additional 37 thousand shares in LOTTO24 AG for consideration of €514 thousand. The increase in investment in LOTTO24 AG has reduced the value of the Group's non-controlling interest by €273 thousand and reduced retained earnings by €241 thousand. In line with the requirements of IFRS there has been no impact on the value of goodwill recognised on the acquisition of LOTTO24 AG. This resulted into the recognition of a non-controlling interest balance of €7,897 thousand as of 31 December 2020.

***Consolidated Income Statement***

In 2019, from the date of acquisition, LOTTO24 AG has contributed €29,317 thousand of revenue and €4,726 thousand of net profit before tax from continuing operations of the Group. If the combination had taken place at the beginning of 2019, revenue for the Group for that year would have been €126,784 thousand and net profit before tax for the Group would have been €9,468 thousand.

## 29 RELATED PARTIES

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

Note 23 to the Consolidated Financial Statements provides information about the Group's structure, including details of each subsidiary.

Oliver Jaster is a Member of the Supervisory Board. The operating business of Schumann e.K. was outsourced to a related company of Oliver Jaster, Günther Direct Services GmbH, Bamberg. In return, Günther Direct Services GmbH, Bamberg, received compensation of €126 thousand for the year (2019: €137 thousand).

Since June 2014, LOTTO24 AG has a cooperation agreement with Staatliche Lotterie-Einnahme Günther KG. The shareholder with power of representation (general partner) of Staatliche Lotterie-Einnahme Günther KG, Oliver Jaster is a 'related party' as defined by IAS 24 with regard to both Staatliche Lotterie-Einnahme Günther KG and ZEAL and its affiliate, LOTTO24 AG. The cooperation agreement relates to the sale of the NKL and SKL class lotteries via the LOTTO24 AG website (lotto24.de, since 2020 also tipp24.com) with effect from 1 July 2014. Customers selecting class lottery products on lotto24.de or tipp24.com and enter further data for purchase and registration on a special landing page are subsequently redirected to the guenther.de site, where they can purchase these class lottery products. For successful redirecting, LOTTO24 AG receives a permanent fixed percentage of the class lottery revenue generated by these customers. In addition, advertising allowances are settled for joint advertising campaigns. Prior to signing the agreement, LOTTO24 AG had solicited several offers from various class lottery brokers in order to gauge standard market conditions and ultimately decided in favour of the offer made by the Günther companies.

Jens Schumann is a Member of the Supervisory Board. Jens Schumann is the sole shareholder of Schumann e.K. This structure has existed in comparable form since 2002 and was chosen because class lotteries only issue sales licences at present to natural persons or companies in which neither the liability of the Company nor its direct and indirect partners is limited. A cooperation agreement is in place between ZEAL and Schumann e.K., which governs the processing of game participation of class lottery customers by Schumann e.K. Under the terms of the agreement, Schumann e.K. must pay all commissions and other lottery 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.

Marc Peters, a member of the Supervisory Board of ZEAL, is an investor in Lottostarlet Limited ('Lottostarlet'), a lottery operator which is registered in Malta. During 2019, Tipp24 Services entered into a Games Service Agreement with Lottostarlet. In 2020, Tipp24 Services recognised €1,396 thousand (2019: €497 thousand) of revenue in relation to this agreement, of which €193 thousand (2019: €497 thousand) was outstanding at the year-end. Also during the year, myLotto24 entered into an Infrastructure Services Agreement with Lottostarlet. Under this agreement, myLotto24 makes available various technology services to Lottostarlet. In 2020, myLotto24 recognised €236 thousand (2019: €66 thousand) of revenue in relation to this agreement, of which €32 thousand (2019: €66 thousand) was outstanding at the year-end. On 18 December 2020, the business relationship of Tipp24 Services and myLotto24 with Lottostarlet was terminated.

The charitable foundation 'Fondation enfance sans frontières', Zurich Switzerland, owner of the preference shares of myLotto24 Limited and Tipp24 Services Limited (prior to 15 October 2019), has been identified as a related party in 2019. In 2019 ZEAL paid €72 thousand to acquire the outstanding preference shares in both companies. In 2019, dividends of £15 thousand were paid by myLotto24 Limited and €15 thousand by Tipp24 Services Limited to the Swiss Foundation. Donations were paid by the Group to the Swiss Foundation of €23 thousand by myLotto24 Limited and €23 thousand by Tipp24 Services limited during the year 2019.

Please refer to the Remuneration Report for details on Management Board and Supervisory Board remuneration. A charge of €2,322 thousand (2019: €858 thousand) has been recognised in the Consolidated Income Statement for the Director's long-term incentives.

Key Management Personnel disclosures have been made in the Remuneration Report and note 32 to the Consolidated Financial Statements. Dividends paid to the members of the Management Board in the year are disclosed on page 25.

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

## 30 CAPITAL MANAGEMENT

All major decisions concerning the financial structure of all individual segments and of the Group as a whole are taken by the Management Board of ZEAL. Only operating capital management for the online-brokerage business is handled by the subsidiary LOTTO24.

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

The objective of the capital management policy 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 all individual segments (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 also monitors the capital structure of all segments to ensure that sufficient equity is available to service external dividend payments.
- While none of the segments currently holds external debt, in the medium-term, ZEAL may leverage its financial position to secure funding to finance growth or future acquisitions. On 26 November 2020, ZEAL and LOTTO24 AG signed a Credit Facility Agreement with the Commerzbank AG for an amount of €7,000 thousand. As at 31 December 2020, this facility had not been drawn down.

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

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

The Group's dividend policy is disclosed on page 20.

## 31 DISCLOSURES RELATING TO FINANCIAL INSTRUMENTS

### 31.1 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.

Other investments have been designated as FVOCI. At 31 December 2020, the fair value of these investments was €4,588 thousand (2019: €4,137 thousand). A discounted cash flow model is utilised to determine the fair value (enterprise value) of the underlying businesses that ZEAL has invested in. The fair value of ZEAL's share of each business has been measured using an option pricing model. The option pricing model allocates the enterprise value of the investment amongst the individual shareholders. Further details can be found in note 14.

For all level 1 financial instruments the carrying amount approximates the fair value and are classified as held at amortised cost, with the exception of cash equivalents. Cash equivalents have been designated as fair value through profit or loss. At 31 December 2020, the fair value of these cash equivalents and other short-term equity funds was €30,243 thousand (2019: €72,511 thousand). Financial assets are quoted and their fair value is based on the price quotations at the reporting date.

During 2020, there were no transfers between level 1, level 2 and level 3 fair value measurements.

## 31.2 CREDIT RISK

The scope of the credit risk of ZEAL equals the sum of cash, cash equivalents and other short-term equity funds, trade receivables and other receivables. The maximum credit risk at the reporting date is the carrying amount of receivables from gaming operations and trade receivables as well as cash, cash equivalents and other short-term investments in pension and equity funds disclosed in notes 17 and 18.

Impairment losses on cash equivalents and other short-term equity funds recognised in profit or loss were as follows:

| | **2020** | 2019 |
|---|---|---|
| in € thousand | | |
| Impairment loss on receivables from gaming operations | – | – |
| Impairment loss on trade receivables | 884 | 1,511 |
| Impairment loss on cash and other financial assets | – | – |
| **Total impairment loss** | **884** | **1,511** |

**Cash and cash equivalents**

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

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

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

ZEAL's investment strategy is aimed at spreading and minimising risk by means of multi-dimensional diversification. Firstly, funds are divided into differing investment products, such as short-term deposits, highly fungible government bonds of Eurozone states and short-term investment fund units. Secondly, we restrict our choice to those investments with good credit ratings.

Cash equivalents and other short-term equity funds are held at fair value through profit or loss and therefore not assessed for impairment.

**Trade receivables**

The Group mainly collects the amounts owed by customers directly, via direct debit or credit card. Missing amounts from such returned direct debits or credit card charges are booked as trade account receivables and are due immediately. Receivables from payment systems such as credit card companies entail the risk that the Group's customers themselves fail to meet their payment obligations. This cost is recognised directly in the income statement in the event of payment default by a customer.

At 31 December 2020 €596 thousand (2019: €484 thousand) of receivables from customer direct debits or credit card payments were fully impaired. Of the €484 thousand provided for at 31 December 2019, the Group has not recovered any of the balance and the full amount was written-off during 2020. The Group impaired failed payments as they occur. Efforts to recover the amounts are continued for 3 months. If they have not been recovered after this, then they are fully written-off. The Group has considered this in determining the appropriate level of lifetime credit losses for amounts owed by customers.

The movement in the allowance for impairment in respect of trade receivables during the year was as follows.

| | 2020 | 2019 |
|---|---|---|
| in € thousand | | |
| **Balance at 1 January** | **484** | **460** |
| Net re-measurement of loss allowance | 884 | 1,511 |
| Amounts written off | (772) | (1,487) |
| **Balance at 31 December** | **596** | **484** |

**Receivables from gaming operations**

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

The COVID-19 pandemic did not lead to an increased risk of default as the lottery business was not negatively impacted (further details are provided in note 2.3).

**Contingent assets**

There are no contingent assets.

### 31.3 LIQUIDITY RISK

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

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

| **Year ended 31 December 2020** | Within 1 year | Within 1 – 3 years | Within 3 – 5 years | Over 5 years | Total |
|---|---|---|---|---|---|
| in € thousand | | | | | |
| Trade payables | 2,208 | – | – | – | 2,208 |
| Other liabilities | 26,371 | 240 | 240 | 1,175 | 28,026 |
| Lease liability | 1,741 | 3,363 | 2,437 | 1,136 | 8,678 |
| **Total** | **30,320** | **3,603** | **2,677** | **2,311** | **38,912** |

| **Year ended 31 December 2019** | Within 1 year | Within 1 – 3 years | Within 3 – 5 years | Over 5 years | Total |
|---|---|---|---|---|---|
| in € thousand | | | | | |
| Trade payables | 3,838 | – | – | – | 3,838 |
| Other liabilities | 27,370 | – | – | – | 27,370 |
| Financial liabilities | 2,449 | 3,905 | 3,077 | 1,875 | 11,306 |
| **Total** | **33,657** | **3,905** | **3,077** | **1,875** | **42,514** |

In addition to the amounts presented in the tables above, there are items excluded from other liabilities, as they are not considered a contractual financial liability. This includes VAT of €1,195 thousand (2019: €1,835 thousand), gaming duty of €9 thousand in 2019 (2020: nil) and payroll related taxes and social security of €226 thousand (2019: €936 thousand).

### 31.4 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, cash equivalents and other short-term equity funds held on 31 December 2020 with an interest rate increase of 100 basis points. Assuming no changes are made to the portfolio in response to the interest rate increase, there would be a rise in interest income of €860 thousand (2019: €1,561 thousand) (in a simplified calculation).

### 31.5 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 2020.

On the basis of this assumption, a 10% increase in the value of the euro against the British pound would result in a positive effect of €294 thousand (2019: €414 thousand) on earnings. A devaluation of 10% would result in a negative effect of €294 thousand (2019: €467 thousand) on earnings.

A 10% increase in the value of the Euro against the Norwegian krone and the Czech crown would result in a negative effect of respectively €108 thousand and €193 thousand (2019: €8 thousand and €197 thousand) on earnings. A devaluation of 10% would result in a positive effect of respectively €105 thousand and €192 thousand (2019: €5 thousand and €175 thousand) on earnings.

In the year ended 31 December 2020 there was a gain from foreign exchange movements on financial instruments of €250 thousand (2019: loss of €294 thousand).

The cash equivalents and other short-term equity funds currently held do not bear any material currency risk.

## 32 OTHER DISCLOSURES

### 32.1 MANAGEMENT BOARD

The members of the Management Board work on a full-time basis. Their remuneration in fiscal year 2020 comprised the following elements:

### REMUNERATION GRANTED

The remuneration granted represents the fixed remuneration, retirement and other benefits and short-term incentives granted to the Management Board members for their services in the fiscal year 2020 and the value on 31 December 2020 of the long-term incentives (virtual shares as explained in note 24 to the Consolidated Financial Statements) granted to them in 2020.

| **Dr Helmut Becker, CEO** | Fixed remuneration | Short-term incentives | Long-term incentives | Retirement and other benefits | **Total** |
|---|---|---|---|---|---|
| in € thousand | | | | | |
| Minimum | 663 | 0 | 0 | 11 | **674** |
| Target | 663 | 270 | 462 | 11 | **1,406** |
| Actual | 663 | 462 | 924 | 11 | **2,060** |
| Maximum | 663 | 540 | 924 | 11 | **2,138** |
| Previous year | 651 | 415 | 460 | 11 | **1,537** |

| Jonas Mattsson, CFO | Fixed remuneration | Short-term incentives | Long-term incentives | Retirement and other benefits | Total |
|---|---|---|---|---|---|
| in € thousand | | | | | |
| Minimum | 494 | 0 | 0 | 11 | **505** |
| Target | 494 | 189 | 323 | 11 | **1,017** |
| Actual | 494 | 323 | 646 | 11 | **1,474** |
| Maximum | 494 | 378 | 646 | 11 | **1,529** |
| Previous year | 443 | 291 | 322 | 11 | **1,067** |

## REMUNERATION RECEIVED

The remuneration received represents the remuneration that was paid to the Management Board members in 2020.

| Executive Directors | Year | Fixed remuneration | Short-term incentives | Long-term incentives | Retirement and other benefits | Total |
|---|---|---|---|---|---|---|
| in € thousand | | | | | | |
| Dr Helmut Becker | 2020 | 663 | 415 | 286 | 11 | **1,375** |
| Dr Helmut Becker | 2019 | 651 | 736[1] | 240[1] | 11 | **1,636**[1] |
| Jonas Mattsson | 2020 | 494 | 291 | 185 | 11 | **981** |
| Jonas Mattsson | 2019 | 443 | 337[1] | 155[1] | 11 | **946**[1] |

[1] *The figures from the Annual Report 2019 were restated to disclose the actual remuneration paid in 2019.*

## 32.2 SUPERVISORY BOARD

The following persons held seats on the Supervisory Board of ZEAL in fiscal year 2020:

- Peter Steiner (Chairman of the Supervisory Board from 17 June 2020)
- Oliver Jaster (Deputy Chairman)
- Thorsten Hehl (regular member)
- Jens Schumann (regular member)
- Marc Peters (regular member)
- Frank Straufʒ (regular member since 17 June 2020)
- Andreas de Maizière (Chairman of the Supervisory Board up to his resignation on 17 June 2020)

## BENEFITS GRANTED

The following table sets out the total remuneration for members of the Supervisory Board for the year ended 31 December 2020:

| Supervisory Board Remuneration | 2020 | 2019 |
|---|---|---|
| in € thousand | | |
| Peter Steiner | 184 | 194 |
| *thereof for subsidiaries* | 31 | 36 |
| Andreas de Maizière | 86 | 95 |
| Oliver Jaster | 90 | 63 |
| Thorsten Hehl | 98 | 88 |
| *thereof for subsidiaries* | 25 | 25 |
| Jens Schumann | 115 | 101 |
| *thereof for subsidiaries* | 52 | 38 |
| Leslie-Ann Reed | – | 63 |
| Marc Peters | 60 | 23 |
| Bernd Schiphorst | – | 23 |
| Frank Straufʒ | 37 | 0 |
| **Total** | **670** | **650** |

### 32.3 DISCLOSURES ACCORDING TO SECTION 160 (1) NO. 8 AKTG

In accordance with section 160 (1) no. 8 of the German Stock Corporation Act (AktG), shareholdings in the Company notified to us in accordance with section 33 (1) of the German Securities Trading Act (WpHG), respectively section 21 (1) of the German Securities Trading Act (WpHG; superseded version) and published by us in accordance with section 40 (1) of the German Securities Trading Act (WpHG), respectively section 26 (1) of the German Securities Trading Act (WpHG; superseded version) are reproduced below. Please note that the subscribed capital of ZEAL has changed from €8,872,319 at the time of the first stock exchange listing on 12 October 2005 to €7,985,088 as of 23 January 2009, €8,385,088 as of 30 April 2013 and €22,396,070 as of 8 May 2020. It is divided into 22,396,070 no-par value registered shares. Each share conveys one voting right, except for the 36,715 treasury shares held by the Company on 31 December 2020.

**UBS Group AG,** Switzerland, notified us following the non-application of the depositories' exception pursuant to section 36 (3) no. 2 of the German Securities Trading Act (WpHG) (published on 25 May 2020) that on 14 May 2020 its total share of voting rights in ZEAL amounted to 20.67% (previous notification: 2.68%) whereas all 4,629,404 voting rights in ZEAL, corresponding to 20.67%, are held indirectly. At this date, 3% or more of the voting rights are held directly as follows (in each case full chain of controlled undertakings starting with the ultimate controlling natural person or legal entity):

UBS Group AG (voting right 20,67%, total 20,67%)

UBS AG (voting right 20,67%, total 20,67%)

**Marc Peters**, Germany, notified us according to section 21 (1) of the German Securities Trading Act (WpHG) (published on July 9, 2012) that on 3 July 2012 his percentage of voting rights in the Company via shares fell below the threshold of 5% and amounts to 4.82% (corresponding to 384,715 voting rights).

#### Additional Information on Notified Shareholdings in the Company

From 7 February 2014 to 25 October 2019, the registered office of the Company was in the UK. During this period, notifications of major holdings in the Company were subject to the provisions of the British Disclosure and Transparency Rules (DTR). The following major holdings in the Company notified to us in accordance with DTR5.1.2 R and published by us in accordance with section 40 (1) of the German Securities Trading Act (WpHG) are voluntarily reproduced in addition to the information required under section 160 (1) no. 8 of the German Stock Corporation Act (AktG):

**Lottoland Holdings Limited**, Gibraltar, notified us following an acquisition or disposal of voting rights (published on 14 January 2019) that its total share of voting rights in ZEAL on 11 January 2019 amounted to 5.53% (previous notification: 4.01%), whereas on this date all 463,499 of the total 8,385,088 voting rights in ZEAL, corresponding to 5.53%, are held directly (Article 9 of Directive 2004/109/EC) (DTR5.1).

**Jens Schumann**, Germany, notified us following an acquisition or disposal of voting rights (published on 17 May 2019) that his total percentage of voting rights in ZEAL Network on 14 May 2019 amounted to 3.58% (previous notification: 2.98%), whereas on this date all 800,209 of the total 22,352,160[1] voting rights in ZEAL Network, corresponding to 3.58%, are held directly (Article 9 of Directive 2004/109/EC) (DTR5.1).

**Working Capital Advisors (UK) Limited,** UK, notified us following an acquisition or disposal of voting rights (published on 27 September 2019) that its total voting rights in ZEAL on 25 September 2019 amounted to 20.18% (previous notification: 19.35%), whereas all 4,511,693 voting rights in ZEAL, corresponding to 20.18%, are held indirectly (Article 10 of Directive 2004/109/EC) (DTR5.2.1). On this date 3% or more of the voting rights are held directly as follows (in each case full chain of controlled undertakings starting with the ultimate controlling natural person or legal entity):

Working Capital Partners, Limited. (voting rights 11.55%, total 11.55%)

High Street Partners, Limited. (voting rights 8.63%, total 8.63%).

**Oliver Jaster**, Germany, notified us following the conclusion of a voting pool agreement (published on 28 October 2019) that his total voting rights in ZEAL on 24 October 2020 amounted to 33.89% (previous notification: 31.87 %), whereas all 7,577,378 of a total of 22,352,1601 voting rights in ZEAL, corresponding to 33.89%, are held indirectly (Article 10 of Directive 2004/109/EC) (DTR5.2.1). On this date less than 3% of the voting rights are held directly by Mr Walter Manfred Günther and 3 % or more of the voting rights are held as follows (in each case full chain of controlled undertakings starting with the ultimate controlling natural person or legal entity):

Oliver Jaster, Günther SE, Günther Holding SE, Othello Vier Beteiligungs GmbH & Co. KG (voting rights 30.06%, total 30.06%)

Oliver Jaster, Günther SE, Günther Holding SE, Günther Holding Immobilien GmbH & Co. KG, Günther Consulting GmbH, Othello Vier Beteiligungs GmbH & Co. KG (voting rights 30.06%, total 30.06%)

*[1] Number of shares in the Company excluding the 43,910 treasury shares held by the Company at the date referred to In the notification*

Oliver Jaster, Günther SE, Günther Holding SE, Günther Holding Immobilien Management GmbH, Günther Holding Immobilien GmbH & Co. KG, Günther Consulting GmbH, Othello Vier Beteiligungs GmbH & Co. KG (voting rights 30.06%, total 30.06%)

Oliver Jaster, Günther SE, Günther Holding SE, Othello Drei Beteiligungs GmbH & Co. KG (voting rights 3.83%, total 3.83%)

Oliver Jaster, Günther SE, Günther Holding SE, Othello Drei Beteiligungs-Management GmbH, Othello Drei Beteiligungs GmbH & Co. KG (voting rights 3.83%, total 3.83%).

### 32.4 DECLARATION OF CONFORMITY WITH THE RECOMMENDATION OF THE GERMAN CORPORATE GOVERNANCE CODE ACCORDING TO SECTION 161 AKTG

In accordance with section 161 AktG, the Supervisory Board and Management Board have issued a Declaration of Conformity with the German Corporate Governance Code and made it permanently available to shareholders on page 21 of this Annual Report and via the Company's website (zealnetwork.de).

## 33 EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE

No significant reportable events occurred up to the date of preparation of the Consolidated Financial Statements.

# INDEPENDENT AUDITOR'S REPORT

To ZEAL Network SE

## REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

**Opinions**

We have audited the Consolidated Financial Statements of ZEAL Network SE, Hamburg, and its subsidiaries (the Group), which comprise the Consolidated Income Statement and the Consolidated Statement of Comprehensive income for the fiscal year from 1 January to 31 December 2020, Consolidated Statement of Financial Position as at 31 December 2020, Consolidated Statement of Cash Flows and the Consolidated Statement of Changes in Equity for the fiscal year from 1 January to 31 December 2020, and notes to the Consolidated Financial Statements, including a summary of significant accounting policies. In addition, we have audited the Group Management Report of ZEAL Network SE for the fiscal year from 1 January to 31 December 2020. In accordance with the German legal requirements, we have not audited the content of the Group Corporate Governance Statement pursuant to Section 289f and Section 315d HGB ("Handelsgesetzbuch": German Commercial Code) which is published on the website stated in the Group Management Report and is part of the Group Management Report.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying Consolidated Financial Statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and, in compliance with these requirements, give a true and fair view of the assets, liabilities and financial position of the Group as at 31 December 2020 and of its financial performance for the fiscal year from 1 January 2020 to 31 December 2020, and
- the accompanying Group Management Report as a whole provides an appropriate view of the Group's position. In all material respects, this Group Management Report is consistent with the Consolidated Financial Statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the Group Management Report does not cover the content of the Group Corporate Governance Statement referred to above.

Pursuant to Section 322 (3) Sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the Consolidated Financial Statements and of the Group Management Report.

**Basis for the opinions**

We conducted our audit of the Consolidated Financial Statements and of the Group Management Report in accordance with Section 317 HGB and the EU Audit Regulation (No 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany, IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's responsibilities for the audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Art. 10 (2) f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Art. 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the Consolidated Financial Statements and on the Group Management Report.

**Key audit matters in the audit of the Consolidated Financial Statements**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the Consolidated Financial Statements for the fiscal year from 1 January to 31 December 2020. These matters were addressed in the context of our audit of the Consolidated Financial Statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters.

Below, we describe what we consider to be the key audit matters:

### 1. IMPAIRMENT OF GOODWILL AND OF OTHER INTANGIBLE ASSETS

**Reasons why the matter was determined to be a key audit matter**

Goodwill and other intangible assets are reported in the Consolidated Financial Statements of ZEAL as a result of the subsequent consolidation of LOTTO24 AG.

To test these material items including goodwill, the brand, the customer list and internally generated technology/software of LOTTO24 AG for impairment, the managing directors of ZEAL determine the fair value less costs of disposal of the cash-generating units (CGU) as of 31 December each year or ad hoc. The Management Board determine fair value less costs of disposal using valuation models according to the discounted cash flow method on the basis of the corporate planning for multiple years approved by the Supervisory Board. The assumptions underlying the valuation model (especially the discount rates, forecast cash inflows, growth rates and return on capital employed) are determined by the Management Board of ZEAL and are subject to judgment.

The fair values less costs of disposal have a significant effect on the recognition of goodwill and intangible assets in the Consolidated Financial Statements as of 31 December 2020. In light of its materiality, the complexity of the valuation models and the Management Board's use of judgment in making assumptions, we consider the determination of fair values to be a key audit matter.

**Auditor's response**

As part of our audit, we analyzed the process implemented by ZEAL's Management Board and the recognition and measurement policies applied to determine the fair values of the cash-generating unit and obtained an understanding of the process steps.

We analyzed the corporate planning by comparing it with the results actually achieved in the past and the current development of business figures. We discussed the significant assumptions underlying the business growth and business performance forecasts with the Management Board and assessed them on the basis of the information received.

The other significant valuation assumptions, such as the discount and growth rates, were analyzed with the support of internal valuation specialists on the basis of an analysis of market indicators. As even minor changes in the discount rate can have a significant effect on the fair value, we obtained an understanding of the inputs used to determine the discount rate by comparing them with publicly available market information. With the aid of sensitivity analyses, we assessed impairment risks arising when significant valuation assumptions change. We also checked the mathematical accuracy of the valuation models.

Our procedures did not lead to any reservations relating to the determination of the fair values.

**Reference to related disclosures**

The Company provides information on goodwill and the intangible assets in the notes to the Consolidated Financial Statements in section "11 Goodwill" and "12 Intangible assets"; further explanatory notes on recognition and measurement policies are contained in the notes to the Consolidated Financial Statements in section "2 Accounting policies" under "2.3 Significant judgments and estimates". With regard to the recognition and measurement policies applied, we refer to the Company's disclosures in the notes to the Consolidated Financial Statements in section "2. Accounting policies" under "2.13 Intangible assets" and "2.15 Impairment".

## 2. REVENUE RECOGNITION

**Reasons why the matter was determined to be a key audit matter**

In the Consolidated Financial Statements of ZEAL, revenue is recognised, in particular, from commissions received by subsidiaries for brokering and transmitting lottery tickets and stakes to the state lottery companies and from the additional charges paid by customers less cash discounts, customer bonuses and rebates. In view of the different contractual arrangements relating to staggering of commission amounts, cash discounts, customer bonuses and rebates, we consider the recognition of revenue from commissions to be complex.

In light of the materiality and complexity, we consider revenue recognition to be a key audit matter.

**Auditor's response**

As part of our audit, we assessed the recognition and measurement policies applied in the Consolidated Financial Statements of Zeal for the recognition of revenue on the basis of the five-step process defined in the standard for revenue recognition, IFRS 15. During our audit we obtained an understanding of the processes implemented by the Management Board for revenue recognition and the deferral of expected cash discounts, customer bonuses and rebates by reference to individual transactions from the receipt of the order to recognition in the Consolidated Financial Statements of ZEAL and tested the controls in place in this process. In addition, we tested on a sample basis whether the amount of the contractually agreed staggered commissions was recognized in revenue on an accrual basis. We examined whether the revenue items for fiscal year 2020 correlate with the corresponding trade receivables to identify any irregularities in the development of revenue. We also analyzed the correlation of revenue in fiscal year 2020 with the related transaction volume, with reference to the development of the jackpot, to identify any irregularities.

Our procedures did not lead to any reservations relating to revenue recognition.

**Reference to related disclosures**

The Company provides information on revenue in the notes to the Consolidated Financial Statements in section "4. Revenue". With regard to the recognition and measurement policies applied, we refer to the Company's disclosures in the notes to the Consolidated Financial Statements in section "2. Accounting policies" under "2.6 Revenue".

**Other information**

The Supervisory Board is responsible for of the Supervisory Board Report. The Management Board and the Supervisory Board are responsible for the declaration pursuant to Sec. 161 AktG ("Aktiengesetz": German Stock Corporation Act) on the German Corporate Governance Code, which is part of the Group Corporate Governance Statement. In all other respects, the

Management Board are responsible for the other information. The other information comprises the remaining parts of the Annual Report, except for the audited Consolidated Financial Statements and Group Management Report, in particular

- The Supervisory Board Report pursuant to Section 171 (2) AktG,
- The Group Corporate Governance Statement referred to above,
- The declaration of conformity with the Corporate Governance Code in accordance with Section 161 AktG, which is published outside of the Group Management Report,
- The responsibility statement pursuant to Section 297 (2) Sentence 4 HGB and Section 315 (1) Sentence 6 HGB,
- The sections "A very successful year", "Executive Review", "Non-Financial Report" and "The ZEAL Share".

Furthermore, we did not audit the content of the following information that is not typical or required for a management report. This relates to any information whose disclosure in the Group Management Report is not required pursuant to Sections 315, 315a HGB or Sections 315b to 315d HGB:

- Subsection "Mobile use" of the section "New customer marketing" and sections "Data science" and "Product development" of the chapter "Strategy".

Our opinions on the Consolidated Financial Statements and on the Group Management Report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the Consolidated Financial Statements, with the Group Management Report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

**Responsibilities of the Management Board and the Supervisory Board for the consolidated financial statements and the Group Management Report**

The Management Board are responsible for the preparation of the Consolidated Financial Statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB, and that the Consolidated Financial Statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, the Management Board are responsible for such internal control as they have determined necessary to enable the preparation of Consolidated Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Consolidated Financial Statements, the Management Board are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the Management Board are responsible for the preparation of the Group Management Report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the Consolidated Financial Statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the Management Board are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a Group Management Report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the Group Management Report.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the Consolidated Financial Statements and of the Group Management Report.

**Auditor's responsibilities for the audit of the Consolidated Financial Statements and of the Group Management Report**

Our objectives are to obtain reasonable assurance about whether the Consolidated Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and whether the Group Management Report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the Consolidated Financial Statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the Consolidated Financial Statements and on the Group Management Report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. 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 Consolidated Financial Statements and this Group Management Report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Consolidated Financial Statements and of the Group Management Report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the Consolidated Financial Statements and of arrangements and measures (systems) relevant to the audit of the Group Management Report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by the Management Board and the reasonableness of estimates made by the Management Board and related disclosures.
- Conclude on the appropriateness of the Management Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the Consolidated Financial Statements and in the Group Management Report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Consolidated Financial Statements, including the disclosures, and whether the Consolidated Financial Statements present the underlying transactions and events in a manner that the Consolidated Financial Statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the Group Management Report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
- Evaluate the consistency of the Group Management Report with the Consolidated Financial Statements, its conformity with (German) law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by the Management Board in the Group Management Report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the Management Board as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the Consolidated Financial Statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

## OTHER LEGAL AND REGULATORY REQUIREMENTS

### Report on the assurance in accordance with Section 317 (3b) HGB on the electronic reproduction of the Consolidated Financial Statements and the Group Management Report prepared for publication purposes

**Opinion**

We have performed assurance work in accordance with Section 317 (3b) HGB to obtain reasonable assurance about whether the reproduction of the Consolidated Financial Statements and the Group Management Report (hereinafter the "ESEF documents") contained in the attached electronic file "ZEAL_Network_SE_KA + KLB_ESEF-2020-12-31.zip" and prepared for publication purposes complies in all material respects with the requirements of Section 328 (1) HGB for the electronic reporting format ("ESEF format"). In accordance with German legal requirements, this assurance only extends to the conversion of the information contained in the Consolidated Financial Statements and the Group Management Report into the ESEF format and therefore relates neither to the information contained in this reproduction nor to any other information contained in the abovementioned electronic file.

In accordance with these requirements, our audit does not cover the voluntary tagging of the individual disclosures to the notes to the Consolidated Financial Statements.

In our opinion, the reproduction of the Consolidated Financial Statements and the Group Management Report contained in the abovementioned attached electronic file and prepared for publication purposes complies in all material respects with the requirements of Section 328 (1) HGB for the electronic reporting format. We do not express any opinion on the information contained in this reproduction nor on any other information contained in the abovementioned file beyond this reasonable assurance opinion and our audit opinion on the accompanying Consolidated Financial Statements and the accompanying Group Management Report for the fiscal year from 1 January to 31 December 2020, contained in the "Report on the audit of the Consolidated Financial Statements and of the Group Management Report" above. Additionally, we do not issue any opinion on the Company's voluntary tagging of the individual disclosures in the notes to the Consolidated Financial Statements.

**Basis for the opinion**

We conducted our assurance work on the reproduction of the Consolidated Financial Statements and the Group Management Report contained in the abovementioned attached electronic file in accordance with Section 317 (3b) HGB and the Exposure Draft of IDW Assurance Standard: Assurance in Accordance with Section 317 (3b) HGB on the Electronic Reproduction of Financial Statements and Management Reports Prepared for Publication Purposes (ED IDW AsS 410). Our responsibilities under that standard are further described in the "Group auditor's responsibilities for the assurance work on the ESEF documents" section. Our audit firm applied the requirements for quality control systems set forth in IDW Standard on Quality Control: "Requirements for Quality Control in Audit Firms (IDW QS 1).

**Responsibilities of the legal representives and the Supervisory Board for the ESEF documents**

The Management Board of the Company are responsible for the preparation of the ESEF documents including the electronic reproduction of the Consolidated Financial Statements and the Group Management Report in accordance with Section 328 (1) Sentence 4 No. 1 HGB and for the tagging of the Consolidated Financial Statements in accordance with Section 328 (1) Sentence 4 No. 2 HGB.

In addition, the Management Board of the Company are responsible for such internal control as they have considered necessary to enable the preparation of ESEF documents that are free from material non-compliance with the requirements of Section 328 (1) HGB for the electronic reporting format, whether due to fraud or error.

The Management Board of the Company are also responsible for the submission of the ESEF documents together with the Auditor's Report and the attached audited Consolidated Financial Statements and the audited Group Management Report as well as other documents to be published to the operator of the Bundesanzeiger (German Federal Gazette).

The Supervisory Board is responsible for overseeing the preparation of the ESEF documents as part of the financial reporting process.

**Group auditor's responsibilities for the assurance work on the ESEF documents**

Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material intentional or unintentional non-compliance with the requirements of Section 328 (1) HGB, whether due to fraud or error. We exercise professional judgment and maintain professional skepticism throughout the engagement. We also:

- Identify and assess the risks of material intentional or unintentional non-compliance with the requirements of Sec. 328 (1) HGB, whether due to fraud or error, design and perform assurance procedures responsive to those risks, and obtain assurance evidence that is sufficient and appropriate to provide a basis for our assurance opinion;
- Obtain an understanding of internal control relevant to the assurance on the ESEF documents in order to design assurance procedures that are appropriate in the circumstances, but not for the purpose of expressing an assurance opinion on the effectiveness of these controls;
- Evaluate the technical validity of the ESEF documents, i.e., whether the electronic file containing the ESEF documents meets the requirements of the Delegated Regulation (EU) 2019/815, in the version valid as of the reporting date, on the technical specification for this electronic file;
- Evaluate whether the ESEF documents enable an XHTML reproduction with content equivalent to the audited Consolidated Financial Statements and to the audited Group Management Report;
- Evaluate whether the tagging of the ESEF documents with Inline XBRL technology (iXBRL) enables an appropriate and complete machine-readable XBRL copy of the XHTML reproduction.

**Further information pursuant to Art. 10 of the EU Audit Regulation**

We were elected as group auditor by the Annual General Meeting on 19 June 2020. We were engaged by the Supervisory Board on 10 January 2021. We have been the auditor of ZEAL Network SE since fiscal year 2019.

We declare that the opinions expressed in this Auditor's Report are consistent with the additional report to the Audit Committee pursuant to Art. 11 of the EU Audit Regulation (long-form audit report).

***German Public Auditor responsible for the engagement***

The German Public Auditor responsible for the engagement is Carl-Heinz Klimmer.

Hamburg, 23 March 2021

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

| | |
|---|---|
| Brorhilker | Klimmer |
| Wirtschaftsprüfer | Wirtschaftsprüfer |
| (German Public Auditor) | (German Public Auditor) |

# RESPONSIBILITY STATEMENT

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

Hamburg, 23 March 2021

The Management Board

| | |
|---|---|
| **Dr Helmut Becker** | **Jonas Mattsson** |
| Chief Executive Officer | Chief Financial Officer |

## KEY CONSOLIDATED FIGURES

| | | 2020 | Q4 2020 | Q3 2020 |
|---|---|---|---|---|
| **Customers** | | | | |
| Cost per lead, Germany Segment[1] | | 27.8 | 28.8 | 29.0 |
| New registered customers, Germany Segment[1] | | 918,156 | 159,695 | 187,605 |
| Average billings per user per month, Germany Segment[1] | € | 55.07 | 61.28 | 54.87 |
| Average monthly active users, Germany Segment[1] | No. thousand | 986 | 984 | 954 |
| **Income statement** | € thousand | | | |
| Billings | | 652,756 | 180,999 | 157,324 |
| Revenue | | 87,023 | 23,015 | 20,529 |
| Gross margin, Germany Segment[1] | | 12.3% | 12.3% | 12.0% |
| EBITDA | | 17,331 | 6,772 | 7,417 |
| EBIT | | 5,375 | 2,511 | 4,886 |
| EBT | | 7,856 | 2,261 | 5,810 |
| Profit for the year | | 7,856 | 1,356 | 6,160 |
| **Statement of financial position** | € thousand | | | |
| Cash, cash equivalents and securities (incl. pledged cash, cash equivalents and securities) | | 86,061 | 86,061 | 78,238 |
| Total non-current assets | | 389,902 | 389,902 | 395,898 |
| Assets | | 494,334 | 494,334 | 492,036 |
| Current liabilities | | 36,046 | 36,046 | 34,617 |
| **Non-current liabilities** | | 62,721 | 62,721 | 62,987 |
| Equity | | 395,567 | 395,567 | 394,422 |
| Equity and liabilities | | 494,334 | 494,334 | 492,036 |
| **Cash flow** | € thousand | | | |
| Cash flow from operating activities | | 5,218 | 7,865 | 11,113 |
| Cash flow from investing activities | | (52,885) | (104) | (138) |
| Cash flow from financing activities | | (19,552) | 60 | (157) |
| **Personnel** | | | | |
| Number of employees (full time equivalents) | No. | 192 | 190 | 192 |
| Personnel expenses | € thousand | (21,870) | (5,277) | (5,398) |
| Expenses per employee | € thousand | 114 | 28 | 28 |
| **Share** | | | | |
| Average number of shares (undiluted) | No. | 22,357,556 | 22,359,355 | 22,359,355 |
| Earnings per share (undiluted) | € | 0.37 | 0.08 | 0.27 |
| Operating cash flow per share (undiluted) | € | 0.24 | 0.36 | 0.50 |
| **Ratios** | % | | | |
| EBITDA margin | | 19.9 | 29.2 | 36.1 |
| Net operating margin | | 9.1 | 5.9 | 29.9 |
| Return-on-equity (ROE) | | 2.1 | 0.4 | 1.6 |

[1] *The corresponding financial indicators for 2019 have been restated to include only the business allocated to the Germany segment as explained in note 3 of the Consolidated Financial Statements. This only includes the brokerage business of the LOTTO24 brand from its acquisition on 14 May 2019 and the Tipp24 brand from 15 October 2019 onwards (since the Business Model Change).*

| Q2 2020 | Q1 2020 | 2019 | Q4 2019 |
| --- | --- | --- | --- |
| | | | |
| 27.8 | 26.0 | 33.6 | 43.5 |
| 365,030 | 205,826 | 274,031 | 112,543 |
| 54.48 | 49.46 | 48.99 | 49.64 |
| 1.065 | 942 | 640 | 839 |
| | | | |
| 174.384 | 140,049 | 466,650 | 134,457 |
| 24,272 | 19,024 | 113,475 | 2,097 |
| 12.6% | 12.1% | 11.7% | 11.9% |
| 418 | 2,724 | 17,912 | (346) |
| (2.064) | 42 | 9,067 | (3,787) |
| (27) | (188) | 8,328 | (4,487) |
| 255 | 152 | 1,718 | (9,098) |
| | | | |
| 67,419 | 109,612 | 153,230 | 153,230 |
| 398,350 | 399,764 | 347,135 | 347,135 |
| 477,539 | 526,210 | 521,133 | 521,133 |
| 25,883 | 56,802 | 49,909 | 49,909 |
| 63,419 | 63,769 | 65,499 | 65,499 |
| 388,237 | 405,649 | 405,725 | 405,725 |
| 477,539 | 526,220 | 521,133 | 521,133 |
| | | | |
| (23,269) | 9,509 | 5,297 | (3,671) |
| 3,550 | (6,195) | 5,058 | (183) |
| (18,715) | (740) | (2,962) | (189) |
| | | 76[1] | 79[1] |
| 192 | 194 | 225 | 224 |
| (6,241) | (4,954) | (22,964) | (5,798) |
| 33 | 26 | 102 | 26 |
| | | | |
| 22,359,355 | 22,352,160 | 22,352,160 | 22,352,160 |
| 0.02 | 0.00 | 0.09 | (0.41) |
| (1.04) | 0.43 | 0.03 | (0.16) |
| | | | |
| 1.7 | 14.3 | 15.8 | (1.7) |
| 0.9 | 0.8 | 1.5 | (44.8) |
| 0.1 | 0.0 | 0.4 | (2.3) |

## FINANCIAL CALENDAR

| | |
|---|---|
| **7 May 2021** | Publication of Quarterly Statement Q 1 2021 |
| **1 June 2021** | Annual General Meeting 2021 |
| **12 August 2021** | Publication of Half-Year Report 2021 |
| **11 November 2021** | Publication of Quarterly Statement Q 1–3 2021 |

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