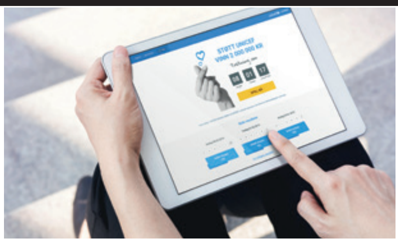
QUARTERLY STATEMENT
1 JANUARY – 30 SEPTEMBER 2019

CREATING A BETTER WORLD OF LOTTERY



MORE DIGITAL

MORE EXCITING

MORE SOCIALLY VALUABLE

ZEAL

ZEAL

ZEAL is a Hamburg-based Group[1] that creates exciting and entertaining online lottery experiences. Founded in Germany in 1999 as Tipp24 SE, 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. Shortly after this, it moved its registered office to London and was renamed as ZEAL Network SE in November 2014.

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

CONTENTS

02 Q1–3 2019 at a glance
04 Business Review
06 Financial Review
10 Financial Statements
17 Selected Notes

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

Q1–3 2019 AT A GLANCE

€332.6m
BILLINGS
(Q 1–3 2018: €212.4M)

€304.4m
STAKES
(Q 1–3 2018: €184.8M)

€93.2m
REVENUE
(Q 1–3 2018: €111.2M)

€101.2m
TOTAL OPERATING PERFORMANCE
(Q 1–3 2018: €114.1M)

€28.3m
EBITDA
(Q 1–3 2018: €30.0M)

€128.0m
NET CASH
(Q 1–3 2018: €101.0M)

€0.70
EARNINGS PER SHARE
(Q 1–3 2018: €2.39)

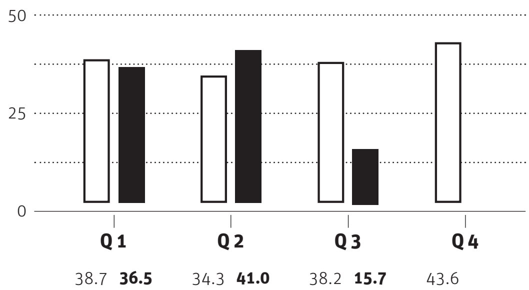
€56.91
AVERAGE BILLINGS PER USER
(Q 1–3 2018: €56.58)

951.8k
MONTHLY ACTIVE USERS
(Q 1–3 2018: 395.0K)

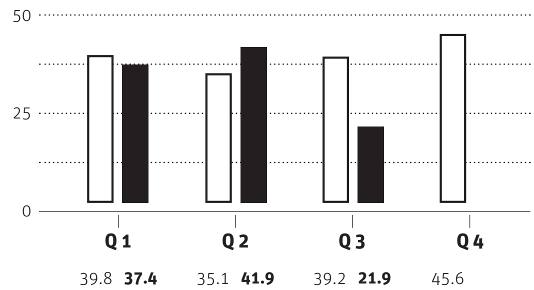
Definitions of the financial measurements disclosed above can be found on page 23 of the 2018 Annual Report. With the exception of net cash and EBITDA, there has been no change in definitions since the issue of the 2018 Annual Report on 20 March 2019. The definition of net cash has been updated to exclude current provisions and current lease liabilities from the net cash number. The definition has been updated to provide readers with a better understanding of the cash available to the Group. EBITDA has replaced adjusted EBIT and is earnings before interest, tax, depreciation, amortisation and exceptional items. An explanation of the change in statutory measure can be found on page 8.

PERFORMANCE

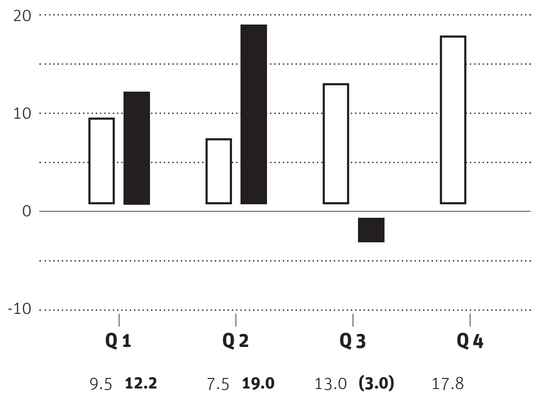
REVENUE in €m



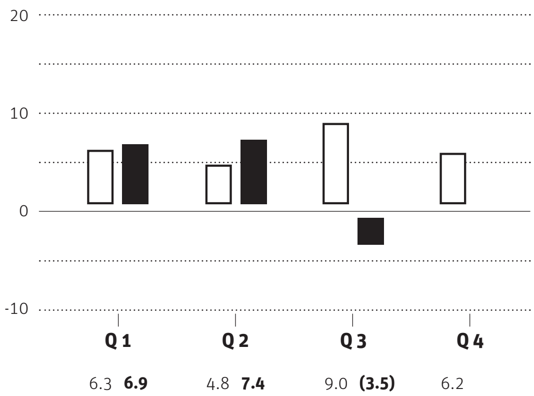
TOTAL OPERATING PERFORMANCE in €m



EBITDA in €m



NET PROFIT in €m



2018 2019

Q3 2019 includes a large jackpot win of €26.3m in August 2019 which was partly mitigated by ILS (Insurance Linked Security) income of €4.9m.

BUSINESS REVIEW

In the first nine months of 2019, we successfully completed the acquisition of Lotto24 AG (Lotto24), establishing the ZEAL Group as Germany's leading online broker of state-licensed lotteries by far. As a consequence, Lotto24's results from the date of acquisition of 14 May 2019 have been included in this report. Our secondary lottery operations in Germany continued throughout the nine-month period. On 15 October 2019, we implemented our previously-announced business model change which transformed these operations into a locally licensed online lottery broker using the broker permit held by Lotto24 AG.

Despite the organisational changes resulting from the takeover and the comparatively weak jackpot development, ZEAL delivered a solid billings performance in the nine-month period ended 30 September 2019. However, due to the large jackpot win of €26.3m in August 2019, revenue and Total Operating Performance (TOP[1]) for the nine-month period ended 30 September 2019 ended up below previous year. In future, as a result of the transition of Tipp24 to the German brokerage business, the development of revenue and TOP will be more predictable as jackpot-related winning pay-outs will no longer occur.

We delivered:

- **Billings** of €332.6m; up 57% year-on-year (2018: €212.4m); up 3%[2] on a like-for-like basis;
- **TOP** of €101.2m; down 11% year-on- year (2018: €114.1m); down 22%[2] on a like-for-like basis;
- **EBITDA[3]** of €28.3m; down 6% year-on-year (2018: €30.0m); down 17%[2] on a like-for-like basis;
- **EBIT** of €12.9m; down 56% year-on-year (2018: €29.1m); down 58%[2] on a like-for-like basis;
- **Net cash** of €128.0m; up 27% year-on-year (2018: €101.0m).

Our focus on effective marketing saw us deliver 568k (429k[2] on a like-for-like basis) new registered customers for the Group and its partners. Average billings per user (ABPU) in the lottery betting and brokerage segments remained on previous year's level at €56.91 (2018: €56.58).

As a result of the acquisition of Lotto24 AG, additional costs of €11.0m have been consolidated in the ZEAL Group since 14 May 2019. Despite these additional costs, total expenses were reduced by €11.6m (excluding exchange rate differences, depreciation, amortisation and exceptional items). This is comprised of a €5.2m reduction in personnel expenses and a €6.4m reduction in other operating expenses such as hedging and legal and regulatory. As explained in the 'Cost Synergies' section below, we expect to further implement synergies and reduce our costs before exceptional items as we transform our business model.

COST SYNERGIES

The run rate cost synergies of at least €57m will be achieved through platform efficiencies and significant reductions in personnel expenses and other operational costs.

Around 60% of the savings (as well as the expected dis-synergies in revenue) only began to take effect when our German business transformed from a secondary lottery to a brokerage business on 15 October 2019 and therefore did not affect the first nine months of 2019. These savings will be comprised mainly of savings in direct costs of operations, including costs covering the bookmaking risks for Tipp24.com and the reduction of non-deductible VAT within the myLotto24 Sub-Group.

The remaining 40% of the cost synergies, which are to be generated primarily by reductions in personnel and other operating expenses, have already been almost fully implemented and will thus show further positive effects in the coming quarters.

As we have previously stated, approximately 80% of the total cost synergies are expected to be achieved by the end of the first year following the completion of the transaction (in May 2020) and 100% by the end of the second year (in May 2021).

The expected total costs of achieving these cost synergies remain in the €15m to €20m range which has previously been communicated. €13.7m has been incurred to date.

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

[2] *Like-for-like movement exclude the 2019 results of Lotto24 and the 2018 results of Lotto Network Limited and the consumer-facing business of Ventura24 S.L.U. (V24 B2C) in order to provide comparative information.*

[3] *EBITDA is earnings before interest, tax, depreciation, amortisation and exceptional items. An explanation of the change in statutory measure can be found on page 8.*

JACKPOT DEVELOPMENT

Jackpots are an essential driver for billings. The development of jackpots offered in the Lotto 6aus49 and EuroJackpot lotteries has differed significantly this year to date. The average Lotto jackpot in the first nine months of 2019 was €9.4m (2018: €7.2m), and as a result billings and revenue from this product have held up well. However, EuroJackpot suffered in comparison with the exceptionally strong jackpot year 2018 – in the first nine months there were only two €90m jackpots (2018: nine) and the average jackpot amount reduced to €35.9m (2018: €47.2m).

The average EuroMillions jackpot in the first nine months increased to €73.3m (2018: €58.2m) but following the transformation of our core German business in October 2019 we no longer offer EuroMillions.

OTHER MARKETS

We have learned from our experience and improved our international business approach. As part of the initiative to internationalise our secondary lottery business in myLotto24, we have been focusing on assessing the profitability of the UK business before pursuing further international markets where national licenses are available. During Q 3 2019, we determined that secondary lottery in the UK would not be able to meet its profitability targets and was therefore stopped. Also in view of the declining international market potential, we have thus decided to stop our secondary lottery business and now mainly focus on the growth opportunities in the German market.

OUTLOOK AND DIVIDEND

The secondary lottery business has now been converted to the brokerage business permitted in Germany. As a result, we expect negative effects on revenue and profitability in the fourth quarter of 2019.

Based on the business model change on 15 October 2019, the effects on the customer base (e.g. the level and timing of migration from secondary lottery to brokerage) that cannot be conclusively assessed from today's perspective and the large jackpot win in August 2019, we anticipate TOP for the 2019 financial year significantly below the previous year (2018: €160m) and EBITDA between €18m and €21m (2018: €48m).

Due to the transfer of our registered office back to Germany, we will no longer pay interim dividends, in accordance with German practice. Accordingly, no dividend will be paid in December 2019. We will publish a proposal on the appropriation of profits by the Executive Board and a new dividend policy in our 2019 financial statements in March 2020 at the latest.

ONGOING LEGAL AND REGULATORY MATTERS

The principal legal and regulatory matters affecting us are included in the 2018 Annual Report. There have been no material changes to the status of these matters since the date of approval of the 2018 Annual Report.

TAX MATTERS AND CONTINGENT LIABILITIES

There have been no material changes in the status of the tax matters reported in the 2018 Annual Report. The Executive Board continue to closely monitor any changes in areas where a contingent liability has been previously disclosed. As disclosed on page 117 of the 2018 Annual Report, there is significant uncertainty as to whether VAT is due in respect of certain services provided by the myLotto24 Sub-Group. The potential financial impact at 30 September 2019 is €80.2m (31 December 2018: €64.6m).

FINANCIAL REVIEW

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

	Q 1–3 2019	Q 1–3 2018
in €k		
Revenue	93,178	111,202
Other operating income	7,988	2,927
Total Operating Performance (TOP)	**101,166**	**114,129**
Personnel expenses	(17,166)	(22,374)
Other operating expenses	(55,973)	(62,382)
Marketing expenses	*(16,089)*	*(13,896)*
Direct costs of operations	*(26,798)*	*(32,122)*
Other costs of operations	*(13,086)*	*(16,364)*
EBITDA	**28,253**	**29,977**
Exceptional items	(9,995)	–
Amortisation and depreciation	(5,404)	(880)
EBIT	**12,854**	**29,097**
Key Performance Indicators		
Billings	332,649	212,354
Stakes	304,375	184,757
Normalised revenue	118,390	114,961
Normalised EBITDA	48,680	33,896
Earnings per share €	0.70	2.39
Net cash position	127,952	101,015
Cash inflow from operating activities	8,968	25,040
Cash from/(used in) investing activities	5,241	(856)
Cash used in financing activities	(2,773)	(1,903)

REVENUE AND TOTAL OPERATING PERFORMANCE

Revenue for the nine-month period ended 30 September 2019 decreased by €18,024k to €93,178k (2018: €111,202k). TOP for the nine-month period ended 30 September 2019 decreased by €12,963k to €101,166k (2018: €114,129k).

The decrease in revenue is primarily due to the large jackpot win of €26,300k in August 2019 which was offset by the €14,273k of revenue contributed by Lotto24 since acquisition. In addition, despite the weaker jackpot environment compared to the prior year, like-for-like stakes increased by 2%. Jackpot ILS income of €4,849k (2018: nil) was recognised in other operating income and offset the €26,300k pay-out resulting in TOP decreasing by 11% compared to the 16% decrease in revenue.

Due to the change in the business model, no fluctuations in revenue and other operating income as a result of jackpot wins are expected in the future.

PERSONNEL EXPENSES

Personnel expenses for the nine-month period ended 30 September 2019 decreased by €5,208k to €17,166k (2018: €22,374k). The decrease in personnel costs is in line with the fall in the average number of full-time equivalent (FTE) employees in the ZEAL Group (including Lotto24) from 273 to 208. It is consistent with the Group's announced plan to drive synergies following the acquisition of Lotto24. Lotto24's personnel expenses from the date of acquisition to 30 September 2019 were €2,614k.

OTHER OPERATING EXPENSES

Other operating expenses for the nine-month period ended 30 September 2019 decreased by €6,409k to €55,973k (2018: €62,382k). The most significant contributory factors were:

- Increase in marketing expenses of €2,193k. This increase was driven by the €3,985k of marketing costs incurred by Lotto24 since acquisition. This was partially offset by a decrease in overall marketing spend due to the weaker jackpot environment in 2019 and by a €584k reduction in costs following the closure of Lotto Network and the V24 B2C business.
- Decrease in direct costs of operations of €5,324k, which is mainly due to a €5,224k decrease in hedging costs (driven by a fall in physical hedging costs on US products) and a €1,677k decrease in non-deductible VAT expense. This was offset by €1,825k of costs incurred by Lotto24 since acquisition.
- Decrease in other costs of operations of €3,278k, which is mainly driven by a €2,334k decrease in legal costs, €832k decrease in rental costs following the adoption of IFRS 16 and a €245k decrease in travel costs. The remaining movement is due to various immaterial decreases in other line items.

EXCEPTIONAL ITEMS

Exceptional items for the nine-month period ended 30 September 2019 were €9,995k (2018: nil). They primarily relate to the acquisition of Lotto24 (€1,950k) and the activities underway to restructure the Group and prepare for the business model change (€7,945k), as well as a €600k provision for legal risks. This was offset by the release of €500k of costs in relation to the closure of V24 B2C business which were provided for as at 31 December 2018 but no longer required.

AMORTISATION AND DEPRECIATION

Amortisation and depreciation for the nine-month period ended 30 September 2019 increased by €4,524k to €5,404k (2018: €880k). This was primarily driven by the recognition of intangibles following the acquisition of Lotto24, resulting in additional amortisation of €2,979k. In addition, the adoption of IFRS 16 has increased this charge by a further €1,262k.

BILLINGS AND STAKES

Billings for the nine-month period ended 30 September 2019 increased by €120,295k to €332,649k (2018: €212,354k). Stakes increased by €119,618k to €304,375k (2018: €184,757k). The acquisition of Lotto24 contributed €124,712k and €116,103k to the increase in billings and stakes, respectively. This was offset by the fall in billings and stakes following the closure of Lotto Network and the V24 B2C business.

NORMALISATION OF RESULTS

The underlying statistical average pay-out ratios for ongoing lottery draws is approximately 50% in respect of our main products (the expected pay-out ratio for lottery betting is the same as for the primary lotteries). However, we experience differences between the expected pay-out ratio and actual pay-outs made, and the difference is referred to as 'normalisation'. In order to aid understanding of our financial results, we disclose the effect of these differences between the expected and actual pay-out ratio by presenting 'normalised' revenue and 'normalised' EBITDA. Following the business model change the Group will no longer offer secondary lottery betting and will not be subject to pay-out risk anymore. As such, 'normalised' revenue and 'normalised' EBITDA will no longer be used to monitor the underlying performance of the Group and will not be separately disclosed from Q1 2020 onwards.

Total pay-outs for secondary lottery betting for the nine months ended 30 September 2019 were €25,212k above the expected pay-out value (2018: €3,759k above), due to the large jackpot win of €26,300k in August 2019. This, combined with the reduction of €4,785k from the normalisation of hedging income, resulted in an adverse difference between actual and expected statutory EBITDA of €20,427k (2018: €3,919k).

Revenue

in €k	Q1–3 2019	Q1–3 2018	Q3 2019	Q3 2018
Actual	93,178	111,202	15,717	38,229
Expected[1]	118,390	114,961	44,021	37,136
Normalisation effect[2]	**(25,212)**	**(3,759)**	**(28,304)**	**1,093**

EBITDA

in €k	Q1–3 2019	Q1–3 2018	Q3 2019	Q3 2018
Actual	28,253	29,977	(2,951)	13,005
Expected[1]	48,680	33,896	20,557	11,998
Normalisation effect[2]	**(20,427)**	**(3,919)**	**(23,508)**	**1,007**

[1] Actuals adjusted for expected pay-outs
[2] Difference between actual and expected amounts. In Q3 2018 the Group presented EBIT adjusted for the normalisation effect. In Q4 2018 the Group updated its alternative performance measure to present 'adjusted EBIT' adjusted for normalisation effects where 'adjusted EBIT' excludes exceptional items which could distort the readers' understanding of the financial statements. In Q2 2019 following the acquisition of Lotto24 and the recognition of significant intangible assets, the Group further updated its alternative performance measure to present EBITDA. This excludes amortisation and depreciation charges (in addition to exceptional items) and provides readers with a more appropriate measure of the performance of the underlying business. We believe this alternative performance measure is useful to enable a reader to compare underlying performance excluding the impact of irregular items and variances in pay-out ratios.

EARNINGS PER SHARE (EPS)

The EPS from continuing operations in the nine months to 30 September 2019 decreased by €1.69 to €0.70 (2018: €2.39) due to the issuance of 14,010,982 new shares as part of the acquisition of Lotto24 and a decrease in profit after tax.

OUTLOOK AND DIVIDEND

The secondary lottery business has now been converted to the brokerage business permitted in Germany. As a result, ZEAL expects negative effects on revenue and profitability in the fourth quarter of 2019.

Based on the business model change on 15 October 2019, the effects on the customer base (e.g. the level and timing of migration from secondary lottery to brokerage) that cannot be conclusively assessed from today's perspective and the large jackpot win in August 2019, ZEAL anticipates TOP for the 2019 financial year significantly below the previous year (2018: €160m) and EBITDA between €18m and €21m (2018: €48m).

Due to the transfer of our registered office back to Germany, we will no longer pay interim dividends, in accordance with German practice. Accordingly, no dividend will be paid in December 2019. We will publish a proposal on the appropriation of profits by the Executive Board and a new dividend policy in our 2019 financial statements in March 2020 at the latest.

NET CASH POSITION

Net cash as at 30 September 2019 increased by €26,937k to €127,952k (2018: €101,015k), due to a €17,716k increase in cash (excluding pledged cash) as a result of €10,918k of cash held in Lotto24 and cash generated by the Group from its secondary lottery business. In addition, the Group has fully utilised its hedging reserve (€25,800k) following the big win in August 2019. The hedging reserve was a cash balance retained by the Group to pay out large wins not covered by the ILS (Insurance Linked Security). Following the business model change, it will no longer be required. This was offset primarily by a €2,039k increase in short-term lease liabilities, a €8,082k increase in current provisions, a €5,498k increase in amounts payable to customers and lottery brokers and a €1,316k increase in trade payables.

SUBSEQUENT EVENTS

On 15 October 2019, ZEAL Network SE acquired the outstanding 60% of shares in Tipp24 Services Limited and myLotto24 Limited, previously owned by Fondation enfance sans frontiers, for €120k. Following this, the Group implemented its previously announced business model change and ended its secondary lottery operations in Germany and transformed into a locally licensed online lottery broker using the broker permit held by Lotto24 AG. As part of the business model change, certain customers of Tipp24 Services Limited will be served by Lotto24 which is a licenced broker of the ZEAL Group.

In the course of the Extraordinary General Meeting held on 25 September 2019, a large majority of ZEAL shareholders voted in favour of relocating the Company's registered office. This relocation from the UK (5th Floor, One New Change, London EC4M 9AR) to Germany (Valentinskamp 70, 20355 Hamburg) was completed on 25 October 2019.

CASH FLOW

	Q 1–3 2019	Q 1–3 2018
in €k		
Cash from operating activities	8,968	25,040
Cash from/(used in) investing activities	5,241	(856)
Cash used in financing activities	(2,773)	(1,903)
Changes in cash and pledged cash and short-term financial assets	**11,436**	**22,281**
Cash and pledged cash and short-term financial assets at the beginning of the period	145,887	112,375
Cash and pledged cash and short-term financial assets at the end of the period[1]	**157,323**	**134,656**

[1] In line with IFRS, for the purposes of the cash flow, short-term financial assets excludes €2,805k (2018: €6,660k) invested in equity funds.

Cash inflow from operating activities for the nine-month period ended 30 September 2019 decreased by €16,072k to €8,968k (2018: €25,040k). The decrease was primarily driven by the increase in prize pay-outs as a result of the large jackpot win of €26,300k in August 2019 (2018: €8,299k). This was offset by jackpot insurance income of €4,849k (2018: nil) and positive results contributed by Lotto24 since its acquisition in May 2019.

Investing inflow for the nine-month period ended 30 September 2019 increased by €6,097k to €5,241k (2018: outflow €856k). This was primarily driven by the €9,348k of cash included in the acquired balance sheet of Lotto24, which was offset by €2,975k paid to acquire investments in equity funds, a €503k payment to acquire additional shares in Lotto24, €350k paid to acquire a further 15% investment in Wshful, a €112k additional investment in Omaze Inc, a €58k investment in Furlong Gaming Ltd and €109k paid to acquire intangible and tangible assets.

Financing outflow for the nine-month period ended 30 September 2019 increased by €870k to €2,773k (2018: €1,903k). Since the adoption of IFRS 16, payments of €2,123k (2018: €1,790k) for leases previously classified as operating leases and presented within operating cash flows in 2018 are now presented within financing cash flows. €650k was paid in connection with the issue of shares associated with the acquisition of Lotto24.

As of 30 September 2019, cash, pledged cash and short-term financial assets increased by €22,667k to €157,323k (2018: €134,656k). Following the class 1 win in August 2019 the remaining ILS retention has been utilised. The Group continues to ensure that myLotto24 Limited is sufficiently financed to pay winnings from Instant Win Games following the business model change in October 2019.

OTHER INFORMATION

Information about our risk management approach and our business risks and opportunities are detailed on pages 26–32 of our 2018 Annual Report.

FINANCIAL STATEMENTS

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

	Q 1–3 2019	Q 1–3 2018	**Q 3 2019**	Q 3 2018
in €k				
Revenue	93,178	111,202	15,717	38,229
Other operating income	7,988	2,927	6,176	954
Total Operating Performance (TOP)	**101,166**	**114,129**	**21,893**	**39,183**
Personnel expenses	(17,166)	(22,374)	(5,994)	(7,128)
Other operating expenses	(55,973)	(62,382)	(19,139)	(19,100)
Marketing expenses	*(16,089)*	*(13,896)*	*(5,052)*	*(4,143)*
Direct costs of operations	*(26,798)*	*(32,122)*	*(9,057)*	*(9,791)*
Other costs of operations	*(13,086)*	*(16,364)*	*(5,030)*	*(5,166)*
Exchange rate differences	226	604	289	50
Result from operating activities before depreciation, amortisation, and exceptional items (EBITDA)	**28,253**	**29,977**	**(2,951)**	**13,005**
Depreciation and amortisation of non-current assets	(4,142)	(880)	(2,434)	(284)
Depreciation of right of use assets	(1,262)	–	(470)	–
Exceptional items	(9,995)	–	(2,638)	–
Result from operating activities (EBIT)	**12,854**	**29,097**	**(8,493)**	**12,721**
Finance income	147	218	28	58
Finance costs	(490)	(146)	(180)	(30)
Gain/(loss) on short term financial assets	318	(321)	73	56
Results from financing and investing activities	**(25)**	**(249)**	**(79)**	**84**
Share of loss of an associate	(14)	–	–	–
Profit/(loss) before income tax	**12,815**	**28,848**	**(8,572)**	**12,805**
Income tax	(1,999)	(8,746)	5,068	(3,819)
Profit/(loss) attributable to the equity shareholders of the Company	**10,816**	**20,102**	**(3,504)**	**8,986**
Attributable to:				
Equity shareholders of the Company	10,666	20,102	(3,630)	8,986
Non-controlling interest	150	–	126	–
Earnings per share for profit attributable to ordinary equity holders of the Company	€	€	€	€
Basic and diluted earnings per share	0.70	2.39	(0.16)	1.07

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

	Q1–3 2019	Q1–3 2018	**Q3 2019**	Q3 2018
in €k				
Profit/(loss) for the period	**10,816**	**20,102**	**(3,504)**	**8,986**
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.	796	–	170	–
Items that may be reclassified to profit or loss in subsequent periods				
Exchange gain on translation of foreign operations	5	36	5	18
Other comprehensive income net of tax	**801**	**36**	**175**	**18**
Total comprehensive income/(loss) attributable to the equity shareholders of the Company	**11,617**	**20,138**	**(3,329)**	**9,004**
Attributable to:				
Equity shareholders of the Company	11,467	20,138	(3,455)	9,004
Non-controlling interest	150	–	126	–

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED) AS AT 30 SEPTEMBER 2019 AND 31 DECEMBER 2018

	As at 30 September 2019	As at 31 December 2018
ASSETS in €k		
Non-current assets		
Property plant and equipment	2,666	2,425
Right of use asset	8,970	–
Goodwill	160,886	–
Intangible assets	154,128	301
Deferred tax assets	17,532	627
Other investments	4,286	3,433
Shares in associated companies	450	–
Other assets and prepaid expenses	147	146
Total non-current assets	**349,065**	**6,932**
Current assets		
Income tax receivables	3,639	39
Trade and other receivables	14,109	16,354
Financial assets	49,966	12,894
Cash and pledged cash	110,162	132,993
Total current assets	**177,876**	**162,280**
TOTAL ASSETS	**526,941**	**169,212**

EQUITY & LIABILITIES in €k	As at 30 September 2019	As at 31 December 2018
Non-current liabilities		
Deferred tax liabilities	53,597	–
Other liabilities	771	1,758
Provisions	2,249	2,160
Lease liability	8,250	–
Total non-current liabilities	**64,867**	**3,918**
Current liabilities		
Trade payables	3,743	3,425
Other liabilities	28,984	25,424
Financial liabilities	97	106
Deferred income	1,172	3,098
Income tax liabilities	2,969	5,702
Provisions	8,082	4,341
Lease liability	2,039	–
Total current liabilities	**47,086**	**42,096**
Equity		
Subscribed capital	22,396	8,385
Share premium	280,132	21,578
Non-controlling interest	8,281	–
Treasury shares	(1,903)	(1,903)
Other reserves	1,023	227
Foreign currency translation reserve	206	201
Retained earnings	104,853	94,710
Total equity	**414,988**	**123,198**
TOTAL EQUITY & LIABILITIES	**526,941**	**169,212**

INTERIM CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2019

	Q 1–3 2019	Q 1–3 2018
in €k		
Profit from continuing operations before tax	12,815	28,848
Adjustments for		
Depreciation and amortisation of non-current assets	4,142	880
Depreciation of right of use assets	1,262	–
Finance income	(147)	(218)
Finance costs	210	146
Finance costs – lease liability	280	–
Other non-cash changes	(223)	176
Changes in		
Trade receivables and other assets	9,463	2,178
Trade payables	(3,141)	(3,083)
Other liabilities	(4,575)	920
Financial liabilities	(9)	(9)
Deferred income	(1,926)	367
Short-term provisions	511	(273)
Interest received	147	218
Interest paid	(210)	(146)
Interest paid on lease liability	(280)	–
Income taxes paid	(9,351)	(4,964)
Cash inflow from operating activities	**8,968**	**25,040**

in €k	Q 1–3 2019	Q 1–3 2018
Cash flow from investing activities		
Payments for acquisition of intangible assets	(15)	(44)
Payments for acquisition of property, plant and equipment	(94)	(697)
Payment for acquisition of an associate	(350)	–
Payment for acquisition of external investment	(170)	(115)
Payments for investment in equity funds	(2,975)	–
Acquisition of a subsidiary, net of cash acquired	9,348	–
Payments to acquire shares	(503)	–
Net cash inflow/(outflow) from investing activities	**5,241**	**(856)**
Cash flow from financing activities		
Payments to acquire treasury shares	–	(1,903)
Payments to issue shares	(650)	–
Payments for lease liability	(2,123)	–
Net cash outflow from financing activities	**(2,773)**	**(1,903)**
Net increase in cash, pledged cash and short-term financial assets	11,436	22,281
Cash, pledged cash and short-term financial assets at the beginning of the year	145,887	112,375
Cash, pledged cash and short-term financial assets at the end of the financial period	**157,323**	**134,656**
Composition of cash, pledged cash and short-term financial assets at the end of the financial period		
Cash and pledged cash	110,162	120,556
Short-term financial assets	47,161	14,100

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED) FOR THE YEAR ENDED 31 DECEMBER 2018 AND FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2019 AND 30 SEPTEMBER 2018

in €k	Subscribed capital	Share premium	Non-controlling interest	Treasury shares	Other reserves	Retained earnings	Currency translation adjustments	**Total equity**
As at 1 January 2018	**8,385**	**21,578**	**–**	**–**	**(560)**	**77,030**	**183**	**106,616**
Reclassification on adoption of IFRS 9	–	–	–	–	642	(642)	–	–
Profit for the period	–	–	–	–	–	20,102	–	20,102
Other comprehensive income	–	–	–	–	–	–	36	36
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**–**	**20,102**	**36**	**20,138**
Treasury shares acquired	–	–	–	(1,903)	–	–	–	(1,903)
As at 30 September 2018	**8,385**	**21,578**	**–**	**(1,903)**	**82**	**96,490**	**219**	**124,851**
Profit for the period	–	–	–	–	–	6,561	–	6,561
Other comprehensive income	–	–	–	–	145	–	(18)	127
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**145**	**6,561**	**(18)**	**6,688**
Dividends paid	–	–	–	–	–	(8,341)	–	(8,341)
As at 31 December 2018	**8,385**	**21,578**	**–**	**(1,903)**	**227**	**94,710**	**201**	**123,198**
Reclassification on adoption of IFRS 16	–	–	–	–	–	(292)	–	(292)
Transactions with owners in their capacity as owners								
Capital increase	14,011	258,554	8,403	–	–	–	–	280,968
Purchase of Non-controlling interest	–	–	(272)	–	–	(231)	–	(503)
Profit for the period	–	–	150	–	–	10,666	–	10,816
Other comprehensive income	–	–	–	–	796	–	5	801
Total comprehensive income for the period	**–**	**–**	**150**	**–**	**796**	**10,666**	**5**	**11,617**
As at 30 September 2019	**22,396**	**280,132**	**8,281**	**(1,903)**	**1,023**	**104,853**	**206**	**414,988**

SELECTED NOTES

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

GENERAL INFORMATION

The unaudited interim condensed consolidated financial statements (the 'quarterly statements') for ZEAL Network SE (the 'Company') and its subsidiaries (collectively, 'ZEAL' or 'the Group') for the nine-month period ended 30 September 2019 were authorised for issue by the Executive Board on 12 November 2019.

GOING CONCERN

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

PRINCIPAL ACCOUNTING POLICIES

Except as described below, the accounting policies applied in these interim financial statements are the same as those applied in the Group's Consolidated Financial Statements for the year ended 31 December 2018.

Associated companies

On 27 March 2019, the Group invested €350k (£300k) to acquire a 15% interest in Cloud Canyon Limited (Wshful), which is based in London, UK. This increased the interest held by the Group to 20%. As a result, the Group is now considered to have significant influence and the investment is now accounted for as an associate.

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 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 loss for the period is shown on the face of the 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.

IFRS 16

The Group has applied IFRS 16 with a date of initial application of 1 January 2019. As a result, the Group has changed its accounting policy for lease contracts as detailed below. The Group applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019.

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under IFRS 16, the Group recognises right of use assets and lease liabilities for most leases. The Group has applied the recognition exemption to short term leases of IT equipment and low value assets.

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

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

- applying a single discount rate to a portfolio of leases with similar characteristics;
- applying the exemption not to recognise right of use assets and liabilities for leases with less than twelve months of lease term remaining at date of initial application;
- excluding initial direct costs from measuring the right of use asset at the date of initial application;
- using hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

On transition to IFRS 16, the Group recognised €6,924k of right of use assets and €8,333k of lease liabilities, recognising the difference in retained earnings. In line with the requirements of IFRS 16, the deferred rent accruals for the London and Hamburg offices have been released to retained earnings, resulting in a net impact of €292k on retained earnings at 1 January 2019.

ESTIMATES

In preparing these interim financial statements, the significant judgements made by the Executive Board in applying the Group's accounting policies and key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2018, with the exception of changes in estimates that occurred on the acquisition of Lotto24.

Acquisition of Lotto24

The circumstances of the acquisition of Lotto24 means that judgement is required in correctly applying the provisions of IFRS 10, 'Consolidated Financial Statements', to ensure that the most appropriate accounting acquirer is identified. In determining the most appropriate accounting acquirer, consideration was given to:

- the relative voting rights held by the legacy shareholders of ZEAL and Lotto24 in the new combined Group;
- the composition of the governing body of the combined Group;
- the composition of the senior management of the combined Group;
- the relative size of the ZEAL and Lotto24 businesses prior to the combination; and
- the commercial and strategic rationale for the transaction.

Following analysis of the above factors, the Executive Board concluded that, while some factors did indicate the accounting acquirer to be Lotto24, the majority of factors indicated ZEAL. Therefore, the Executive Board considers ZEAL to be the accounting acquirer and the acquisition accounting has been performed on this basis.

RELATED PARTIES

There has been no change in the related parties or their activities since the issue of the 2018 Annual Report on 20 March 2019.

APPROVAL

The Quarterly Statement was approved by the Executive Board on 12 November 2019.

SEGMENT REPORTING

The Group's reportable operating segments reflect the management structure of the Group, the way performance is evaluated and the way resources are allocated by the Chief Operating Decision Maker (CODM), being the Executive Board. Following the acquisition of Lotto24 on 14 May 2019, the Group reviewed its reportable operating segments and determined that brokerage meets the definition of a reportable operating segment. This segment has therefore been included in the 2019 disclosure.

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

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

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

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

Brokerage Segment
The Brokerage segment comprises the results of Lotto24, the Group's brokerage business in Germany. Its cost base includes direct costs and an allocation of the shared cost base. We monitor the performance of the Brokerage segment based on actual results.

Lottovate Segment
The Lottovate segment comprises the elements of our business which are focused on the reinvention of the digital lottery experience, operating primary lotteries and helping charities, foundations and communities to unlock new sources of funding through bespoke lottery platforms. These include our international services business for lottery operators including online operation of the lottery games for charitable organisations, such as ONCE. In addition, the international business offers digital services to business partners (such as UNICEF Norway) and state lotteries as well as operating its own licensed lotteries through Lottovate.

Following the acquisition of Lotto24 and the restructure of the Group, the results of ZEAL Ventures are reported to the CODM as part of the Lottovate segment. From 14 May 2019 the results of ZEAL Ventures are included within the Lottovate segment.

In December 2018, the Group closed its lottery brokerage business in Spain (V24 B2C) and its Lotto Network brand. The results for 2019 do not include these operations.

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

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

ZEAL Ventures

In 2018, ZEAL Ventures was not a separately identifiable segment and its costs were instead proportionally allocated to the Lottery Betting and Lottovate segments. Following the acquisition of Lotto24 and the restructure of the Group, the results of ZEAL Ventures are now reported to the CODM as part of the Lottovate segment.

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

- 'Normalisation' adjustments – these adjustments bridge the quantum of statistically expected pay-outs included within the business unit column to consolidated statutory results which include actual cash outflows.

- Other items impacting revenue and other operating income mainly relate to external revenue and other operating income generated by Schumann e.K. (which does not form part of either the Lottery Betting or Lottovate segments).

Operating segment reporting **Q 1–3 2019**	Lottery Betting	Lottovate	Brokerage	**Operating segement total**	Normalisation adjustments	Other adjustments	**Statutory total**
in €k							
Revenue from secondary lottery	78,815	–	–	**78,815**	(28,958)	134	**49,991**
Revenue from Instant Win Games	8,548	–	–	**8,548**	3,746	–	**12,294**
Revenue from ticket sales and commission	12,691	3,928	14,274	**30,893**	–	–	**30,893**
Other operating income	2,317	249	60	**2,626**	4,785	577	**7,988**
Total Operating Performance (TOP)	102,371	4,177	14,334	**120,882**	(20,427)	711	**101,166**
EBITDA	48,797	(3,100)	3,355	**49,052**	(20,427)	(372)	**28,253**
Depreciation/amortisation	–	–	–	**(5,404)**	–	–	**(5,404)**
Exceptional items	–	–	–	**(9,995)**	–	–	**(9,995)**
EBIT	–	–	–	**33,653**	(20,427)	(372)	**12,854**
Financing and investing result	–	–	–	**–**	–	(25)	**(25)**
Share in loss in associate	–	–	–	**–**	–	(14)	**(14)**
EBT	–	–	–	**33,653**	(20,427)	(411)	**12,815**
Income tax	–	–	–	**–**	–	(1,999)	**(1,999)**
Net profit/(loss)	–	–	–	**33,653**	(20,427)	(2,410)	**10,816**

Operating segment reporting **Q 1–3 2018**	Lottery Betting	Lottovate	**Operating segement total**	Normalisation adjustments	Other adjustments	**Statutory total**
in €k						
Revenue from secondary lottery	86,704	–	**86,704**	(7,504)	–	**79,200**
Revenue from Instant Win Games	8,548	–	**8,548**	3,745	–	**12,293**
Revenue from ticket sales and commission	13,625	5,940	**19,565**	–	144	**19,709**
Other operating income	2,467	445	**2,912**	(160)	175	**2,927**
Total Operating Performance (TOP)	111,344	6,385	**117,729**	(3,919)	319	**114,129**
EBITDA	39,705	(5,363)	**34,342**	(3,919)	(446)	**29,977**
Depreciation/amortisation	–	–	**(880)**	–	–	**(880)**
EBIT	–	–	**33,462**	(3,919)	(446)	**29,097**
Financing and investing result	–	–	**–**	–	(249)	**(249)**
EBT	–	–	**33,462**	(3,919)	(695)	**28,848**
Income tax	–	–	**–**	–	(8,746)	**(8,746)**
Net profit/(loss)	–	–	**33,462**	(3,919)	(9,441)	**20,102**

FINANCIAL CALENDAR

26 March 2020	Annual Report 2019
14 May 2020	Quarterly statement as of 31 March 2020
17 June 2020	Annual General Meeting 2020
13 August 2020	Half yearly report as of 30 June 2020
12 November 2020	Quarterly statement as of 30 September 2020

Published by
ZEAL Network SE
Valentinskamp 70
20355 Hamburg
Germany

Phone: +49 (0) 809 050 30
www.zealnetwork.de

Concept & design
Impacct Communication GmbH

www.impacct.de