DISRUPT
THE INDUSTRY

CREATE EXCITING
EXPERIENCES

GROW
INTERNATIONALLY

SUPPORT
CHARITIES

# CREATE A BETTER WORLD OF LOTTERY

INTERIM FINANCIAL REPORT
1 JANUARY – 31 MARCH 2017

ZEAL

**ZEAL Network SE*** and its consolidated companies** specialise in the area of online lottery. Our service offering consists primarily of the highly profitable consumer-facing lottery-based games business and the provision of business-to-business lottery solutions. Disruption of the online lottery market through innovation is a core objective of the Group. A proven track record in development of online technology and distribution channels, optimum utilisation of our bespoke hedging structure and the benefits of gradual market deregulation have enabled us to retain a leading position in the market. Internationalisation of our product offering is the key platform on which ZEAL aims to continue expanding.

## CONTENTS

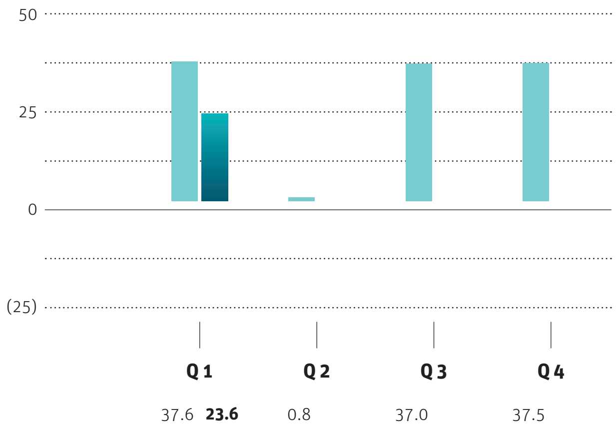


** 'ZEAL Network' or 'the Company'*
*** 'ZEAL Group' or 'the Group'*

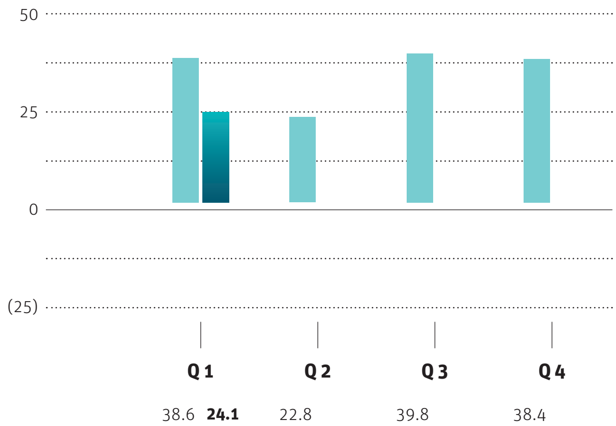
# PERFORMANCE

2016 2017

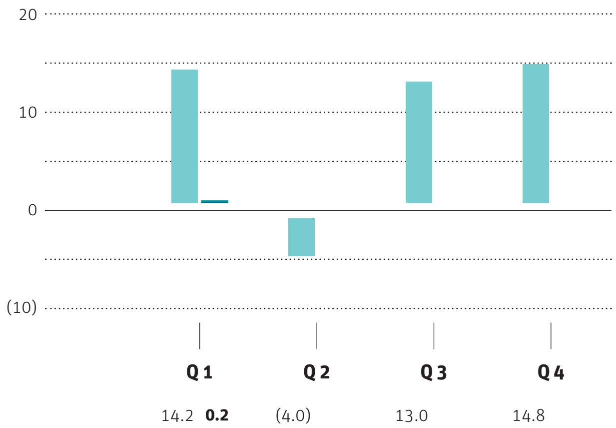
**STATUTORY REVENUE**[1] in €m



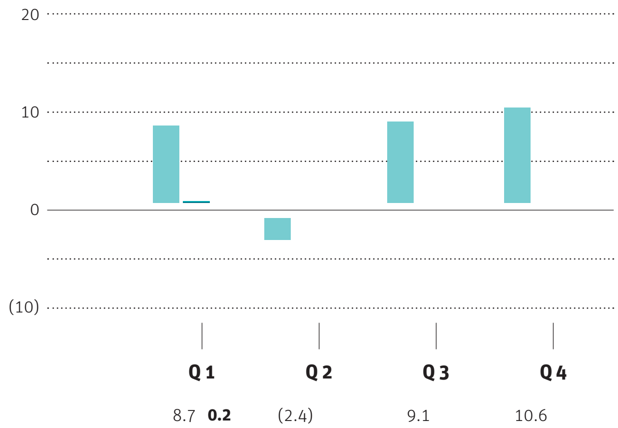

**STATUTORY TOTAL OPERATING PERFORMANCE** in €m



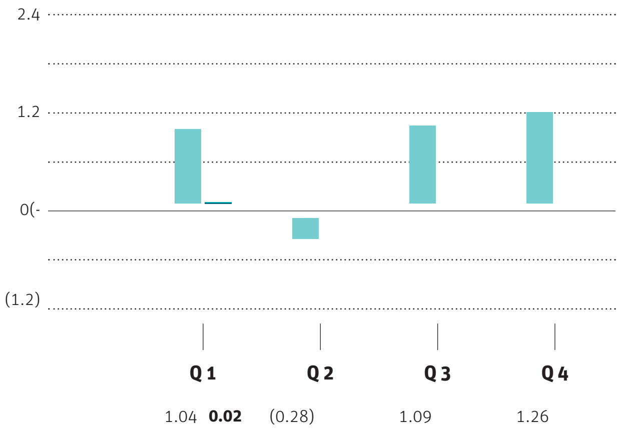

**STATUTORY EBIT** in €m




**NET PROFIT** in €m




**EARNINGS PER SHARE** in €




[1] *Revenue in Q 2 2016 and Q 1 2017 was negatively impacted by high prize pay-outs.*

# EXECUTIVE REVIEW

## DEAR SHAREHOLDERS

ZEAL Group has continued the positive momentum from 2016 into the first quarter of 2017, achieving a strong financial position with excellent prospects for the future. We have been successful in maintaining a high level of billings and monthly active users, which we saw in the latter part of 2016. An exceptional prize pay-out in the first quarter, led to a decrease in Total Operating Performance[1] (TOP) and EBIT compared to the same period in 2016. We launched our lottery betting product in Ireland in March 2017, under a licence obtained in 2016. Significant headway was made in the development of our charity lottery partnership, having received a licence to operate in Norway. In the Netherlands, we received the first full lottery operator licence awarded by the Dutch state since 1989. New licences in Norway and the Netherlands, together with a strong pipeline, have laid excellent foundations for growth.

## FINANCIAL PERFORMANCE FOR THE FIRST THREE MONTHS OF 2017

Billings, which comprises all stakes from customers (including brokerage stakes) net of free bets, totalled €68,427k for the three month period ended 31 March 2017. This represents an increase of €1,863k compared to the same period in 2016 (€66,564k).

TOP for the three month period ended 31 March 2017 amounted to €24,142k (2016: €38,634k), a decrease of €14,492k. This was impacted by an exceptional prize pay-out of approximately €15,000k, in March 2017. The pay-out falls within the self-retention specified in MyLotto24's hedging instruments.

EBIT for the three month period amounted to €245k (2016: €14,244k) representing a decrease of €13,999k compared to the same period in 2016. The decrease in EBIT was primarily driven by the exceptional prize pay-out in March 2017 noted above and an increase in marketing investment activities. The investment in marketing follows the Group's continued strategy to drive customer acquisition and re-activate the dormant proportion of the B2C customer base. We are confident that adherence to the strategic objectives set out in the 2016 Annual Report will result in the Group being able to achieve its core profitability targets for the full year.

Average monthly active users (MAU), increased by 36.3k to 392.9k in Q1 2017, compared to the comparative period (Q1 2016: 356.6k). Q1 2017 saw a reduction in average billings per user (ABPU) €54.35 (Q1 2016: €57.45) compared to the same period in 2016, driven by new users and a shift in product mix. ZEAL is committed to expanding the currently profitable product offering, thus leading to positive development of ABPU.

We also monitor our performance based on 'normalised' results, which includes adjustments for expected lottery pay-outs based on statistical modelling. Consolidated 'normalised' revenue[2] in the first three months of 2017 decreased by 1.3% to €35,140k (2016: €35,602k) with consolidated 'normalised' EBIT[2] amounting to €11,995k (2016: €12,243k). There has been a shift in the product mix during 2017 with a higher proportion of instant win game sales. This has resulted in a slight dilution of normalised revenue and margin for the period.

[1] *TOP is the sum of Revenue and Other Operating Income as disclosed in the Interim Consolidated Income Statement.*
[2] *'Normalised' revenue and EBIT are non-statutory measures. These items have been defined in the normalised results section of the report.*

## LAUNCHING INTO NEW MARKETS

A primary focus of the Group's internationalisation strategy is to expand our global footprint. We launched our lottery betting product in Ireland on 20 March 2017, under a licence obtained in 2016. The new product offering includes betting on several lotto draws, including the Irish Lotto, EuroMillions, EuroJackpot and the German Lotto.

Successful applications for licences by Lottovate in Norway and the Netherlands have laid excellent foundations for growth, along with a strong pipeline. In Norway, we have entered a partnership with one of the world's largest charities, UNICEF Norway, making us one of only two operators to date, to be granted a charity lottery licence. The new licence allows the partnership to operate a nationwide charity lottery for a period of nine years. The Norway launch is expected in Q2 of 2017 with a full ramp-up in the second half of the year. In the Netherlands, we received the country's first full lottery operator licence since 1989. The new licence allows Lottovate to run a nationwide charity lottery under the Dutch regulatory framework for a period of five years. We are planning to introduce an innovative social lottery for Dutch consumers by Q3 2017. These landmark events in Norway and the Netherlands will ensure that Lottovate becomes a significant growth driver in ZEAL's Business-to-Business/Business-to-Government (B2B/B2G) offering.

## FREE POSTCODE LOTTERY DEVELOPMENT

Our strategic arm, ZEAL Investments, secured its first investment - The Free Postcode Lottery Limited (FPL) in December 2016. Since the investment, FPL has been successful in continuing to grow its user base. Average daily active users for Q1 2017 amounted to 286,523 (Q1 2016: 160,340) representing an increase of 79% compared to the same period in 2016. ZEAL Investments currently holds 10% of FPL and has an option to purchase an extra 20% within five years.

## UK WITHDRAWAL FROM EUROPEAN UNION

On 29 March 2017, the UK Government invoked Article 50 of the Treaty of Lisbon, thereby formally notifying the European Council of the UK's intention to withdraw from the European Union (EU). This commences the process of negotiating an exit deal for the UK. The negotiation period set by Article 50 is two years. Therefore, the UK will leave the EU by 29 March 2019, unless either a deal is reached at an earlier date or the negotiation period is extended by unanimous consent of the European Council.

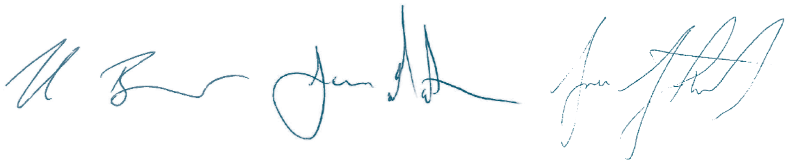
There will be no immediate change to UK financial and corporate reporting requirements, as the UK remains a member of the EU until the end of the negotiation period. There are various tax reliefs and exemptions that apply to transactions between UK entities and entities in other EU member states. The tax legislation, if any that will replace those reliefs and exemptions is unknown at this stage.

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

## OUTLOOK

Our strategic outlook remains unchanged with attractive growth opportunities in our target markets. We have made tangible progress towards our internationalisation strategy by expanding our global footprint. The Group remains well positioned to capitalise on opportunities arising from changes to regulatory conditions and relatively low internet penetration of the lottery industry. For 2017, we expect consolidated TOP in the range of €130m to €140m with a consolidated EBIT of between €15m and €25m.

The Executive Board



**Dr. Helmut Becker**
CEO

**Jonas Mattsson**
CFO

**Susan Standiford**
CTO

# BUSINESS REVIEW

## BUSINESS MODEL AND STRUCTURE

The Group's operating segments are Business-to-Consumer (B2C) and Business-to-Business/Business-to-Government (B2B/B2G). We have described the composition of the segments in more detail below:

**B2C Segment**

- B2C's operating results comprise the lottery betting business, sales of Instant Win Games, direct costs and an allocation of the shared cost base.

**B2B/B2G Segment**

The B2B/B2G segment comprises the remainder of the Group's core operating activities including:

- The lottery brokerage business in Spain.
- The international services business for lottery operators including online operation of the lottery games of the Spanish lottery operator ONCE (a national organisation for blind and disabled people).
- The international business offering digital services to private business partners and state lotteries as well as operating its own licensed lotteries.
- Segmental results presented are attributable to the operating activities of the B2B/B2G segment together with an allocation of shared costs.

## LEGAL AND REGULATORY MATTERS

The development of the legal environment in the jurisdictions in which we operate or plan to enter varies greatly:

- In Germany, gambling is governed by the German State Treaty on Games of Chance (Staatsvertrag zum Glücksspielwesen), brought into law in 2008 and revised in 2012. The legislation was found to be in breach of European Union (EU) law and, as such, the legal situation for any potential enforcement of German legislation in Europe remains unclear. Specifically, the European Court of Justice (ECJ) found that the application of the legislation was in contravention of the EU law on the freedom to provide services. While the judgement against the legislation applied to sports betting, it is likely to extend to all games of chance, including lottery. The European Commission continues to carefully monitor the German regulation and may consider the initiation of infringement procedures against Germany. After further rulings of German courts against German authorities and in favour of private gambling operators, the regulator has recently proposed minor changes to the sports betting sector legislation, which in our eyes does not solve the non-compliance of the interstate treaty with EU law. The Group continues to monitor the regulatory developments and carefully review outcomes of any directly relevant court cases for precedents. While it remains to be seen whether any prospective changes will silence the European Commission's challenges and prevent it from initiating any formal action against Germany, the Group believes that the current lack of clarity does not negatively impact ongoing operations or future business.
- The UK Government has now revised the national Gambling Act to improve consumer protection by requiring companies based offshore, but seeking to market gaming products in the UK, to be licensed by the UK Gambling Commission. A general election is taking place on 8 June 2017. Regardless of the outcome, the election result is not expected to have a significant impact on the Group.
- The legal situation in Spain remains unclear. Unequivocal regulations concerning the online brokerage of lotteries especially product marketing, are not imminent at present. The risk to the legality of our Spanish business is discussed in the risk report in the 2016 Annual Report.

## ONGOING LEGAL AND REGULATORY MATTERS

The principal legal and regulatory matters affecting the Group are included in our 2016 Annual Report. There have been no material changes to the status of these matters since the date of approval of the 2016 Annual Report. Furthermore, there have been no significant additional legal or regulatory matters that have arisen during the first three months of 2017.

## TAX MATTERS AND CONTINGENT LIABILITIES

There have been no material changes in the status of the tax matters reported in the 2016 Annual Report. The Directors continue to closely monitor any changes in areas where a contingent liability has been previously disclosed.

# NORMALISATION OF RESULTS

## NORMALISED RESULTS

In the lotteries on whose results ZEAL Group relies, there are fixed underlying pay-out ratios (ratio of pay-outs to stakes) for ongoing lottery draws. For our main products, this is approximately 50%. The expected pay-out ratio for lottery betting is the same as for the primary lotteries.

There may be deviations between the expected pay-out ratio and actual pay-outs made. The difference between the actual pay-out and the expected prize pay-out is referred to as 'normalisation' in this report.

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

## PAY-OUTS ON LOTTERY BETTING

Total pay-outs on lottery betting in the first three months of 2017 were €11.6m above the expected pay-out value (in the first three months of 2016, the comparable figure was €2.0m below the expected pay-out value) with an impact on statutory revenue of the same amount. This had a corresponding impact on statutory EBIT and a small negative impact of €0.2m from hedging income normalisation resulting in a difference between actual and expected statutory EBIT of €11.8m (in the first three months of 2016 statutory EBIT was €2.0m higher than expectation).

**Revenue**

| | **01/01–31/03/2017** | 01/01–31/03/2016 |
|---|---|---|
| in €k | | |
| Actual | 23,574 | 37,574 |
| Expected[1] | 35,140 | 35,602 |
| **Deviations[2]** | **(11,566)** | **1,972** |

**EBIT**

| | **01/01–31/03/2017** | 01/01–31/03/2016 |
|---|---|---|
| in €k | | |
| Actual | 245 | 14,244 |
| Expected[1] | 11,995 | 12,243 |
| **Deviations[2]** | **(11,750)** | **2,001** |

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

# FINANCIAL REVIEW

The following table details the interim consolidated statement of operations of the ZEAL Group for the three months ended 31 March:

| | **01/01–31/03/2017** | 01/01–31/03/2016 | Change % |
|---|---|---|---|
| in €k | | | |
| Revenue | 23,574 | 37,574 | (37) |
| Other operating income | 568 | 1,060 | (46) |
| **Total operating performance (TOP)** | **24,142** | **38,634** | **(38)** |
| Personnel expenses | (8,009) | (6,744) | 19 |
| Exchange rate differences | 3 | (978) | (100) |
| Other operating expenses | (15,551) | (14,405) | 8 |
| Marketing expenses | (3,978) | (1,469) | 171 |
| Direct costs of operations | (6,975) | (7,926) | (12) |
| Other costs of operations | (4,598) | (5,010) | (8) |
| Loss on acquisition | – | (1,340) | N/A |
| **EBITDA** | **585** | **15,167** | **(96)** |
| Amortisation and depreciation | (340) | (923) | (63) |
| **EBIT** | **245** | **14,244** | **(98)** |
| Financing and investing result | (10) | (1,525) | (99) |
| **Earnings before taxes** | **235** | **12,719** | **(98)** |
| Income taxes | (70) | (4,024) | (98) |
| **Profit for the period** | **165** | **8,695** | **(98)** |

## TOTAL OPERATING PERFORMANCE (TOP)

Consolidated TOP for the three month period ended 31 March 2017 amounted to €24,142k (2016: €38,634k), representing a decrease of €14,492k compared to the same period in 2016. The decrease in TOP was driven by a higher than statistically expected prize pay-out. In March 2017, a player won a prize of approximately €15,000k. The amount falls within the self-retention specified in MyLotto24's hedging instruments.

## EBIT

At a consolidated statutory level, EBIT for the period amounted to €245k (2016: €14,244k) representing a decrease of €13,999k compared to the same period in 2016. EBIT for the period was impacted by the following movements, some of which we expect to be temporary or one-off in nature:

- Decrease in TOP by €14,492k as disclosed above
- Increase in personnel expenses of €1,265k
- Increase in other operating expenses of €1,146k of which €2,509k related to marketing costs.

This was offset by positive movements, outlined below:

- Reduction in depreciation and amortisation expenses of €583k
- Absence of negative exchange rate movements a difference of €981k
- In 2016, a non-recurring charge of €1,340k attributable to the acquisition of Geonomics Global Games Limited (GGGL) and Geo24 UK Limited (Geo24)

## EXPENSES

In the first three months of 2017, personnel expenses were €8,009k representing an increase of 19% compared to the same period in 2016 (€6,744k). The period-on-period increase in personnel expenses is primarily due to an increased Group headcount and inflation based salary increases.

Compared to the same period in the previous year, other operating expenses increased from €14,405k to €15,551k. The most significant contributory factor was a €2,509k increase in marketing related costs. The increased investment in marketing follows the Group's continued strategy to drive customer acquisition and re-activate the dormant proportion of the B2C customer base.

## LOSS ON ACQUISITION

In the first quarter of 2016, ZEAL acquired the remaining shares in GGGL and Geo24, to obtain 100% ownership. The objective of the acquisition was to secure the software development team and the expertise of the employees from both entities. A loss on acquisition of €1,340k was recorded in Q1 of 2016. Since the acquisition, the new team has been key in developing products, platforms and technologies that will allow the operating business to react quickly and efficiently to consumers and changes in the competitive landscape.

## FINANCING AND INVESTING RESULT

The financing and investing result for the three month period ended 31 March 2017 amounted to a loss of €10k (2016: loss of €1,525k), representing a decrease in costs of €1,515k compared to the same period in 2016. In 2016, a loan advanced to GGGL under a convertible facility was impaired. The Group provided against each draw-down as there was significant uncertainty over whether the funds would be repaid. A charge of €1,598k was recorded in the income statement.

The remaining amounts recorded within the financial result relate to other interest income of €75k (2016: €125k) offset by interest expense of €85k (2016: €52k).

## TAX

At 30%, the consolidated tax rate in the first three months is lower than in the same period in the prior year (2016: 32%). As the B2C and B2B/B2G segments are treated as different tax units, losses of the B2B/B2G segment cannot be offset against earnings of the B2C segment. Fluctuations in the mix of losses and earnings between these segments period on period therefore have a direct result on the Group's consolidated tax rate and contribute to fluctuations in the rates realised each year.

## EARNINGS PER SHARE (EPS)

The EPS from continuing operations in the first three months of 2017 decreased compared to the same period in the previous year from €1.04 to €0.02 due to a decrease in profit after tax of €8,530k.

## CASH FLOW AND CAPITAL MANAGEMENT

| | **Q 1 2017** | Q 1 2016 |
|---|---|---|
| in €k | | |
| **Key cash flow positions** | | |
| Cash from operating activities | (4,570) | 20,511 |
| Cash used in investing activities | (282) | (1,670) |
| Cash used in financing activities | – | (5,870) |
| **Changes in cash and pledged cash and short-term financial assets** | **(4,852)** | **12,971** |
| Cash and pledged cash and short-term financial assets at the beginning of the period | 114,665 | 107,660 |
| **Cash and pledged cash and short-term financial assets at the end of the period** | **109,813** | **120,631** |

Cash outflow from operating activities in the first three months of 2017 was (€4,570k) (€25,081k below the comparable 2016 figure of €20,511k). The difference was primarily driven by a reduction in profit from continuing operations before tax of €12,484k and the receipt of tax on winnings withheld in 2016 of €9,575k.

In the first three months of 2017, investing activities resulted in cash outflows of €282k (2016: cash outflows of €1,670k). In 2017, the only component relates to the acquisition of intangible and property, plant and equipment assets of €282k (2016: €72k). In 2016, cash outflows also included draw-downs made by GGGL on the convertible loan facility of €1,598k. No similar cash payments were made in the first 3 months of 2017.

Cash used in financing activities of €nil (2016: €5,870k) is wholly attributable to dividend payments in the prior year.

As of 31 March 2017, ZEAL had cash and pledged cash and short-term deposits of €109,813k (2016: €120,631k). This includes funds that ensure that MyLotto24 is sufficiently financed to effect payments of relevant jackpot winnings.

## FORECAST

As announced on 9 March 2017 and re-iterated in our 2016 Annual Report issued on 23 March 2017, we expect full year TOP in the range of €130m to €140m with a consolidated EBIT of between €15m and €25m.

# OTHER INFORMATION

Information about our risk management approach and our business risks and opportunities are detailed on pages 25–29 of our 2016 Annual Report.

# GOING CONCERN

The Directors formed a judgement at the time of approving the interim financial statements that there is a reasonable expectation that ZEAL has adequate resources to continue for the foreseeable future. The Group held €109.8m in cash, pledged cash and short-term financial assets at the period end (31 December 2016: €114.7m). The Group expects to deliver revenue and profit growth in the period ahead. For these reasons, the Directors have adopted the going concern basis in preparing the interim consolidated financial statements.

# DIRECTORS OF THE COMPANY

The directors who held office during the period were:

- Dr. Helmut Becker, CEO (Executive Board)
- Jonas Mattsson, CFO (Executive Board)
- Susan Standiford, CTO (Executive Board)
- Andreas de Maizière (Supervisory Board)
- Thorsten H. Hehl (Supervisory Board)
- Oliver Jaster (Supervisory Board)
- Bernd Schiphorst (Supervisory Board)
- Jens Schumann (Supervisory Board)
- Peter Steiner (Supervisory Board)

Andreas de Maizière has resigned from the board with effect from the conclusion of the next AGM in June 2017. Peter Steiner will succeed him as Chairman of the Supervisory Board.

# RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the interim consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit of the Group. The interim management report of the Group includes a fair review of the development and performance of the business and the position of the Group, as well as a fair review of information on material transactions with related parties and changes since the last Annual Report.

12 May 2017

| | | |
|---|---|---|
| Dr. Helmut Becker | Jonas Mattsson | Susan Standiford |
| CEO | CFO | CTO |

## INTERIM CONSOLIDATED INCOME STATEMENT (UNAUDITED) FOR THE THREE MONTHS ENDED 31 MARCH

| in €k | Note | **Q 1 2017** | Q 1 2016 |
|---|---|---|---|
| Revenue | 2 | 23,574 | 37,574 |
| Other operating income | 2 | 568 | 1,060 |
| **Total operating performance (TOP)** | | **24,142** | **38,634** |
| Personnel expenses | | (8,009) | (6,744) |
| Amortisation/depreciation on intangible assets and property, plant and equipment | | (340) | (923) |
| Exchange rate differences | | 3 | (978) |
| Other operating expenses | | (15,551) | (14,405) |
| Marketing expenses | | (3,978) | (1,469) |
| Direct costs of operations | | (6,975) | (7,926) |
| Other costs of operations | | (4,598) | (5,010) |
| Loss on acquisition | 7 | – | (1,340) |
| **Result from operating activities (EBIT)** | | **245** | **14,244** |
| Finance income | | 75 | 125 |
| Finance costs | | (85) | (52) |
| Impairment of convertible loan | 7 | – | (1,598) |
| Share of loss of associated companies | | – | – |
| Share of profit/(loss) of joint ventures | | – | – |
| **Results from financing and investing activities** | | **(10)** | **(1,525)** |
| **Profit before income tax** | | **235** | **12,719** |
| Income tax expense | 3 | (70) | (4,024) |
| **Profit attributable to the equity shareholders of the Company** | | **165** | **8,695** |
| **Earnings per share for profit attributable to ordinary equity holders of the Company** | | € | € |
| Basic and diluted earnings per share | | 0.02 | 1.04 |

## INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED) FOR THE THREE MONTHS ENDED 31 MARCH

| in €k | **Q 1 2017** | Q 1 2016 |
|---|---|---|
| **Profit for the period** | **165** | **8,695** |
| **Other comprehensive income** | | |
| Other comprehensive income to be reclassified to profit or loss in subsequent periods: | | |
| Exchange loss on translation of foreign operations | (3) | – |
| Gain/(loss) on available-for-sale financial assets (AFS) | 90 | (244) |
| Income tax effect | – | – |
| **Other comprehensive loss net of tax** | **87** | **(244)** |
| **Total comprehensive income attributable to the equity shareholders of the Company** | **252** | **8,451** |

## INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED) AS AT 31 MARCH 2017 AND 31 DECEMBER 2016

| | **31/03/2017** | 31/12/2016 |
|---|---|---|
| **ASSETS** in €k | | |
| **Non-current assets** | | |
| Property, plant and equipment | 2,010 | 1,901 |
| Intangible assets | 635 | 802 |
| Deferred tax assets | 575 | 575 |
| Investments in associated companies | – | – |
| Investments in joint ventures | – | – |
| Other investments | 1,198 | 1,198 |
| Other assets and prepaid expenses | 214 | 201 |
| **Total non-current assets** | **4,632** | **4,677** |
| | | |
| **Current assets** | | |
| Trade and other receivables | 667 | 755 |
| Income tax receivables | 8 | 9 |
| Other current assets and prepaid expenses | 10,501 | 12,835 |
| Short-term loan | 3,075 | 3,075 |
| Financial assets | 38,674 | 19,682 |
| Cash and pledged cash | 71,139 | 94,983 |
| **Total current assets** | **124,064** | **131,339** |
| | | |
| **TOTAL ASSETS** | **128,696** | **136,016** |

| | **31/03/2017** | 31/12/2016 |
|---|---|---|
| **EQUITY & LIABILITIES** in €k | | |
| **Non-current liabilities** | | |
| Other liabilities | 1,892 | 2,199 |
| **Total non-current liabilities** | **1,892** | **2,199** |
| | | |
| **Current liabilities** | | |
| Trade payables | 3,794 | 5,052 |
| Other liabilities | 18,533 | 22,545 |
| Financial liabilities | 127 | 123 |
| Deferred income | 3,215 | 2,251 |
| Income tax liabilities | 3,021 | 5,952 |
| Provisions | 304 | 336 |
| **Total current liabilities** | **28,994** | **36,259** |
| | | |
| **Equity** | | |
| Subscribed capital | 8,385 | 8,385 |
| Share premium | 21,578 | 21,578 |
| Other reserves | (695) | (785) |
| Foreign currency translation reserve | 140 | 143 |
| Retained earnings | 68,402 | 68,237 |
| **Total equity** | **97,810** | **97,558** |
| | | |
| **EQUITY & LIABILITIES** | **128,696** | **136,016** |

## INTERIM CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED) FOR THE THREE MONTHS ENDED 31 MARCH

| | **Q1 2017** | Q1 2016 |
|---|---|---|
| in €k | | |
| Profit from continuing operations before tax | 235 | 12,719 |
| Adjustments for | | |
| Depreciation and amortisation of non-current assets | 340 | 923 |
| Finance income | (75) | (125) |
| Finance costs | 85 | 52 |
| Impairment of convertible loan | – | 1,598 |
| Loss on acquisition | – | 1,340 |
| Acquisition of GGGL and Geo24, net of cash acquired | – | (623) |
| Other non-cash changes | 87 | (953) |
| Changes in | | |
| Trade and other receivables | 88 | 9,684 |
| Other assets and prepaid expenses | 2,321 | 1,219 |
| Trade payables | (1,258) | (614) |
| Other liabilities | (4,319) | (1,386) |
| Financial liabilities | 4 | 6 |
| Deferred income | 964 | (763) |
| Short-term provisions | (32) | (420) |
| Interest received | 75 | 125 |
| Interest paid | (85) | (52) |
| Income taxes paid | (3,000) | (2,219) |
| **Cash flow from operating activities** | **(4,570)** | **20,511** |

| | **Q 1 2017** | Q 1 2016 |
|---|---|---|
| in €k | | |
| Cash flow from investing activities | | |
| Contributions to associated companies | – | (1,598) |
| Payments for acquisition of intangible assets | – | (5) |
| Payments for acquisition of property, plant and equipment | (282) | (67) |
| **Net cash outflow from investing activities** | **(282)** | **(1,670)** |
| | | |
| Cash flow from financing activities | | |
| Dividends paid to the Company's shareholders | – | (5,870) |
| **Net cash outflow from financing activities** | **–** | **(5,870)** |
| | | |
| Net (decrease)/increase in cash, pledged cash and short-term financial assets | (4,852) | 12,971 |
| Cash, pledged cash and short-term financial assets at the beginning of the year | 114,665 | 107,660 |
| **Cash, pledged cash and short-term financial assets at the end of the financial year** | **109,813** | **120,631** |
| | | |
| **Composition of cash, pledged cash and short-term financial assets at the end of the year** | | |
| Cash and pledged cash | 71,139 | 100,896 |
| Short-term financial assets | 38,674 | 19,735 |

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED) FOR THE YEAR ENDED 31 DECEMBER 2016 AND FOR THE THREE MONTHS ENDED 31 MARCH 2017 AND 31 MARCH 2016

| in €k | Subscribed capital | Share premium | Other reserves | Retained earnings | Currency translation adjustments | **Total equity** |
|---|---|---|---|---|---|---|
| **As at 1 January 2016** | **8,385** | **21,578** | **(558)** | **65,764** | **–** | **95,169** |
| Profit for the period | – | – | – | 8,695 | – | 8,695 |
| Other comprehensive income | – | – | (244) | – | – | (244) |
| **Total comprehensive income for the period** | **–** | **–** | **(244)** | **8,695** | **–** | **8,451** |
| Transactions with owners in their capacity as owners | | | | | | |
| Dividends paid | – | – | – | (5,870) | – | (5,870) |
| **As at 31 March 2016** | **8,385** | **21,578** | **(802)** | **68,589** | **–** | **97,750** |
| Profit for the period | – | – | – | 17,256 | – | 17,256 |
| Other comprehensive income | – | – | 17 | – | 143 | 160 |
| **Total comprehensive income for the period** | **–** | **–** | **17** | **17,256** | **143** | **17,416** |
| Transactions with owners in their capacity as owners | | | | | | |
| Dividends paid | – | – | – | (17,608) | – | (17,608) |
| **As at 31 December 2016** | **8,385** | **21,578** | **(785)** | **68,237** | **143** | **97,558** |
| **As at 1 January 2017** | **8,385** | **21,578** | **(785)** | **68,237** | **143** | **97,558** |
| Profit for the period | – | – | – | 165 | – | 165 |
| Other comprehensive income | – | – | 90 | – | (3) | 87 |
| **Total comprehensive income for the period** | **–** | **–** | **90** | **165** | **(3)** | **252** |
| Transactions with owners in their capacity as owners | | | | | | |
| Dividends paid | – | – | – | – | – | – |
| **As at 31 March 2017** | **8,385** | **21,578** | **(695)** | **68,402** | **140** | **97,810** |

# SELECTED EXPLANATORY NOTES

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

### GENERAL INFORMATION

The unaudited interim condensed consolidated financial statements (the 'interim financial statements') for ZEAL Network SE (the 'Company') and its subsidiaries (collectively, 'ZEAL Group' or 'the Group') for the three month period ended 31 March 2017 were authorised for issue by the Directors on 12 May 2017.

The Company was founded in Germany in 1999 and transferred its registration to the UK in February 2014 under the Company Number SE000078. The Company's shares are listed in the Prime Standard segment of the Frankfurt Stock Exchange and are included in the SDAX index in the form of Clearstream Interests (CI) under the ISIN GB00BHD66J44/WKN TPP024.

The date of the interim condensed consolidated statement of financial position is 31 March 2017. The financial period ended 31 March 2017 covers the period from 1 January 2017 to 31 March 2017.

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

### BASIS OF PREPARATION

The interim financial statements for the three month period ended 31 March 2017 have been prepared in accordance with IAS 34 'Interim Financial Reporting', as adopted by the European Union. Accordingly, these interim financial statements do not include all of the information and disclosures required to fully comply with IFRS as adopted by the European Union. For this reason, the interim financial statements should be read in conjunction with the Group's consolidated financial statements for the year ended 31 December 2016.

The interim financial statements include all adjustments of a normal and recurring nature considered necessary for fair presentation of results for interim periods. Results of the period ended 31 March 2017 are not necessarily indicative of future results.

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

### PRINCIPAL ACCOUNTING POLICIES

The same accounting policies and calculation methods were used for these interim financial statements as for the consolidated financial statements as at 31 December 2016.

### EVENTS DURING THE PERIOD

In March 2017, a player won a prize of approximately €15,000k. The pay-out falls within the self-retention specified in MyLotto24's hedging instruments.

## 2 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 Board of Directors.

We monitor the performance of the B2C segment based on 'normalised' revenue and EBIT (statutory revenue and EBIT adjusted to the statistically expected prize pay-outs) and actual results for the B2B/B2G segment. The disclosures included in the operating segment note below are consistent with the Group's internal reporting and 'normalised' performance is given due prominence in the disclosure as this is the way in which we analyse the Group. A fuller description of 'normalisation' is included in the business review section of this report. Included within the note below is a reconciliation between the segmental results used to assess the 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. Descriptions of the significant reconciling items are also included below the relevant tables.

The operating segments are Business-to-Consumer (B2C) and Business-to-Business/Business-to-Government (B2B/B2G). We have described the composition of the segments in more detail below:

### B2C Segment

B2C's operating results comprise the lottery betting business, sales of Instant Win Games products, direct costs and an allocation of the shared cost base.

### B2B/B2G Segment

The B2B/B2G segment comprises the remainder of the Group's core operating activities including:

- The lottery brokerage business in Spain.
- The international services business for lottery operators including online operation of the lottery games of the Spanish lottery operator ONCE (a national organisation for blind and disabled people).
- The international business that offers digital services to private business partners or state lotteries.
- Segmental results presented are attributable to the operating activities of the B2B/B2G segment together with an allocation of shared costs.

| **Business unit segment reporting**<br>**31 March 2017** | B2C | B2B/B2G | Business unit total | Recon-ciliation to stats | – thereof nor-malisation adjustments | – thereof other | Statutory |
|---|---|---|---|---|---|---|---|
| in €k | A | B | A+B=C | D+E=F | D | E | C+F |
| Revenue | 33,356 | 1,723 | 35,079 | (11,505) | (11,566) | 61 | 23,574 |
| Other operating income | 567 | 55 | 622 | (54) | (184) | 130 | 568 |
| **Total operating performance (TOP)** | **33,923** | **1,778** | **35,701** | **(11,559)** | **(11,750)** | **191** | **24,142** |
| **EBITDA** | **14,510** | **(2,303)** | **12,207** | **(11,622)** | **(11,750)** | **128** | **585** |
| Depreciation/amortisation | (260) | (80) | (340) | – | – | – | (340) |
| **EBIT** | **14,250** | **(2,383)** | **11,867** | **(11,622)** | **(11,750)** | **128** | **245** |
| Financial result | – | – | – | (10) | - | (10) | (10) |
| **EBT** | **–** | **–** | **11,867** | **(11,632)** | **(11,750)** | **118** | **235** |
| Income tax | – | – | – | (70) | – | (70) | (70) |
| **Net profit/loss** | **–** | **–** | **11,867** | **(11,702)** | **(11,750)** | **48** | **165** |

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

- 'Normalisation' adjustments (column 'thereof 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' adjustments (column 'thereof other') – the most significant adjustment relates to the following:
  - Other items impacting revenue and other operating income relate to external revenue and other operating income generated by Schumann e.K. This company does not form part of either the B2C or B2B/B2G segments.
  - The remaining reconciling items are not considered material by the Directors.

| **Business unit segment reporting**<br>**31 March 2016** | B2C | B2B/B2G | Business unit total | Recon-ciliation to stats | – thereof nor-malisation adjustments | – thereof other | Statutory |
|---|---|---|---|---|---|---|---|
| in €k | A | B | A+B=C | D+E=F | D | E | C+F |
| Revenue | 33,829 | 1,711 | 35,540 | 2,034 | 1,972 | 62 | 37,574 |
| Other operating income | 804 | 101 | 905 | 155 | 29 | 126 | 1,060 |
| **Total operating performance (TOP)** | **34,633** | **1,812** | **36,445** | **2,189** | **2,001** | **188** | **38,634** |
| **EBITDA** | **16,445** | **(2,089)** | **14,356** | **811** | **2,001** | **(1,190)** | **15,167** |
| Depreciation/amortisation | (749) | (174) | (923) | – | – | – | (923) |
| **EBIT** | **15,696** | **(2,263)** | **13,433** | **811** | **2,001** | **(1,190)** | **14,244** |
| Financial result | – | – | – | (1,525) | – | (1,525) | (1,525) |
| **EBT** | **–** | **–** | **13,433** | **(714)** | **2,001** | **(2,715)** | **12,719** |
| Income tax | – | – | - | (4,024) | – | (4,024) | (4,024) |
| **Net profit/loss** | **–** | **–** | **13,433** | **(4,738)** | **2,001** | **(6,739)** | **8,695** |

- 'Other' adjustments (column 'thereof other') – the most significant adjustments in 2016 relate to the following items:
  - A charge associated with the acquisition of GGGL and Geo24 amounting to approximately €1,340k recorded within EBITDA and EBIT described in note 7 below.
  - An impairment charge on amounts drawn by GGGL on the convertible loan facility of €1,598k recorded within the financial result (described in the business review section above). The remaining gain of €73k included within this category relates to net income receivable accrued in the normal course of business.
  - Other items impacting revenue and other operating income relate to external revenue and other operating income generated by Schumann e.K. This company does not form part of either the B2C or B2B/B2G segments.

## 3 TAXES

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

| | Q 1 2017 | Q 1 2016 |
|---|---|---|
| in €k | | |
| Current income tax expense | 70 | 4,024 |
| Deferred tax expense | – | – |
| **Total income tax** | **70** | **4,024** |

## 4 DIVIDENDS PAID

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

## 5 FINANCIAL ASSETS AND FINANCIAL LIABILITIES

### 5.1 FAIR VALUE

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

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

All financial instruments held by the Group at 31 March 2017 are classified as level 1. For all financial instruments the carrying amount approximates to fair value. Of the short-term financial assets held at 31 March 2017 amounting to €38,674k (31 December 2016: 19,682k), €36,482k were available-for-sale financial assets (31 December 2016: €17,490k) and €2,192k were held-to-maturity financial assets (31 December 2016: €2,192k).

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

### 5.2 CREDIT RISK

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

**Cash and other financial assets**

There may be a default risk both in respect of the cash and short-term financial assets themselves, as well as the related interest accrued. Due to the high total amount of cash and short-term financial assets held by ZEAL, and the resulting absolute and relative importance, extensive management processes have been established to steer and regularly monitor the Company's investment strategy.

Cash and short-term financial assets are invested in a variety of short-term securities offering as much liquidity and as little volatility as possible, while ensuring broad risk diversification. The overriding objective of our 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. First, funds are divided into differing investment products, such as sight and term deposits, highly fungible government bonds of Eurozone states and short-term investment fund units. Second, we restrict our choice to those investments with good credit ratings. Following regular monitoring, there were no specific default risks in the portfolio as of the balance sheet date.

**Trade and other receivables**

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

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

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

**Short-term loan**

The Group has advanced an amount to a third party as part of a pre-existing platform separation agreement. Due to the credit standing of the counterparty, the Group does not expect any significant default on payment.

**Contingent assets**

No contingent assets were recognised at 31 March 2017 (31 December 2016: no contingent assets recognised).

## 5.3 LIQUIDITY RISK

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

In order to limit the particular risk of high jackpot pay-outs in the 'B2C' segment, MyLotto24 Limited conducts hedging transactions – such as the transfer of payment obligation risks to a so-called catastrophe bond ('CAT bond') via an ILS vehicle. Financial liabilities and trade payables presented on the face of the balance sheet are mainly payable within one year.

## 5.4 INTEREST RATE RISK

ZEAL invests the majority of its funds in a combination of fixed term deposits. For these funds, which are mainly held in liquid or short-term investments, there is a general risk from changing interest rates. Sensitivity analyses performed yielded no material movement in interest income based on an increase or decrease of 10 basis points.

## 5.5 CURRENCY RISK

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

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

## 6 CAPITAL MANAGEMENT

ZEAL operates a decentralised capital management system. All major decisions concerning the financial structure of the B2B/B2G segment are taken by the Executive Board of ZEAL Network. Capital management activities of the B2C segment are handled by MyLotto24 Limited, with the exception of Tipp24 Services which operates its own capital management system.

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

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

- The capital structures of the B2B/B2G segment and the B2C segment (together 'the segments') consist of shareholders' equity, as none of these segments holds any external debt.
- The amount of each segment's surplus equity (i.e. the quantum of equity that exceeds the amount required to secure each segment's stable financial position) is to be used for inorganic acquisitions and the funding of further organic growth in line with the strategic objectives.
- ZEAL Network also monitors the capital structure of all segments to ensure that sufficient equity is available to service external dividend payments.
- While none of the segments currently hold external debt, in the medium-term, ZEAL Network may also leverage its financial position to secure funding to finance growth or future acquisitions.

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

## 7 GEONOMICS GLOBAL GAMES LIMITED (GGGL) AND GEO24 UK LIMITED (GEO24)

Previously, the Group accounted for its relationships with GGGL and Geo24 as an investment in an associate and an investment in a joint venture respectively. On 30 March 2016, the Group acquired the remaining issued shares of GGGL leading to full ownership of both GGGL and Geo24. As such, these companies are now accounted for as wholly owned subsidiaries.

In Q1 2016, a charge of €1,598k relating to a write-off of the amounts drawn on the convertible loan facility and a loss on the total acquisition of €1,340k was recorded. Since the acquisition, the new team has been key in developing products, platforms and technologies that will allow the operating business to react quickly and efficiently to consumers and changes in the competitive landscape.

## 8 RELATED PARTIES

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

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

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

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 €34k in the period under review (2016: €34k).

The Swiss foundation 'Fondation enfance sans frontières', Zurich, owner of the preference shares of MyLotto24 Limited and Tipp24 Services Limited, has been identified as a related party. There has been no dividends or donations paid by the Group to the Swiss foundation during the three month period (Q1 2016: €15k & €35k respectively).

There were no other significant transactions with related parties in the period under review.

## 9 SUBSEQUENT EVENTS

On 1 May 2017, ZEAL Investments secured a cash investment of €1.87m ($2.0m) in Los Angeles based start-up Omaze Inc. Omaze is disrupting charitable giving by offering once-in-a-lifetime experiences and exclusive merchandise in support of critical causes. The company already has significant traction in the US market. ZEAL received preferred shares representing a 2.5% interest, a Board Observer seat and various rights to protect and extend its shareholding.

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

## 10 STATUTORY ACCOUNTS

The financial information shown in this publication, which was approved by the Board of Directors on 12 May 2017, is unaudited and does not constitute statutory financial statements. The Annual Report of ZEAL Network SE for the year ended 31 December 2016 has been filed with the Registrar of Companies in England and Wales. The report of the auditor on those accounts was unqualified and did not contain a statement under section 498(2) or section 498(3) of the UK Companies Act 2006.

# FINANCIAL CALENDAR

| | |
|---|---|
| **30 June 2017** | Annual General Meeting |
| **11 August 2017** | Publication of Q 2 Report |
| **10 November 2017** | Publication of Q 3 Report |

**Published by**
ZEAL Network SE
5th Floor – One New Change
London EC4M 9AF

Phone: +44 (0) 203 739 - 7000
Fax: +44 (0) 203 739 - 7099

www.zeal-network.co.uk

Concept & design
Impacct Communication GmbH

www.impacct.de