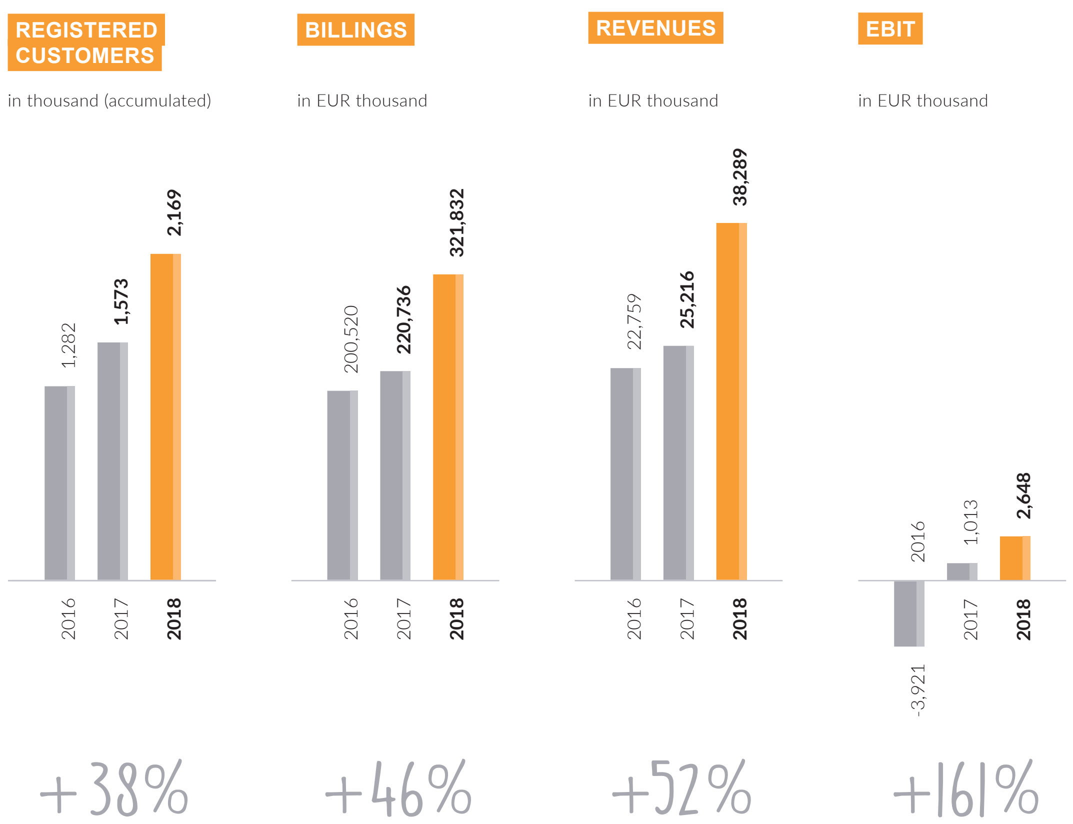
Annual Report 2018

Mega jackpots boosted our best fiscal year to date

Profitable growth

Lotto24 is the leading German online provider of state-licensed lottery products. 2018 was a particularly successful year for us: thanks to the above-average number of large jackpots, we exceeded our annual targets, significantly expanded our market share and provided EUR 122 million for good causes. At the end of the year, ZEAL Network SE announced a takeover offer in the form of a share-for-share exchange. We have since been working hard on reviewing and implementing this offer. Our further development therefore remains exciting – especially against this background.



- Exceptionally strong jackpot trend
- More than 2 million customers
- EUR 122 million for good causes
- Market leader with 34% market share
- Takeover offer of ZEAL Network SE

FOREWORD

»2018 was even better than expected«

Ladies and gentlemen,

2018 was a particularly eventful year for Lotto24 AG: thanks to the above-average number of large jackpots, we exceeded our annual targets, significantly expanded our market share and provided EUR 122 million for good causes. At the end of the year, ZEAL Network SE (ZEAL) announced a takeover offer in the form of a share-for-share exchange. We have since been working hard on reviewing and implementing this offer. Our further development therefore remains exciting – especially against this background.

Annual targets exceeded

In the fourth quarter of 2018, our billings grew by 53.0% to EUR 85.9 million (prior year: EUR 56.2 million), while revenues of EUR 10.2 million exceeded the prior-year figure by as much as 57.8% (prior year: EUR 6.5 million). Due in particular to the very positive development of lotto clubs in an exceptionally strong jackpot environment, gross margin rose to 11.9% (prior year: 11.5%). At the same time, we gained 128 thousand new customers (prior year: 75 thousand) with a cost per lead (CPL) of EUR 26.98 (prior year: EUR 29.40).

»AN EVENTFUL YEAR – AND THE FUTURE PROMISES TO BE JUST AS EXCITING!«

Petra von Strombeck

In the fiscal year 2018 as a whole, we therefore generated billings of EUR 321.8 million (prior year: EUR 220.7 million, +45.8%), resulting in revenue growth of 51.8% to EUR 38.3 million (prior year: EUR 25.2 million) and a gross margin of 11.9% (prior year: 11.4%). With a total of 596 thousand new customers (prior year: 291 thousand), the total number of customers registered with Lotto24 reached 2,169 thousand (prior year: 1,573 thousand). Due to the jackpot-related increase in marketing activities and the test run of comparatively more expensive TV commercials conducted in the first half of 2018, marketing expenses in 2018 doubled to around EUR 15.4 million (prior year: EUR 7.9 million). However, CPL of EUR 25.88 was well below the prior-year figure (prior year: EUR 27.32).

Thanks to the strong revenue trend, EBIT improved to EUR 2.6 million (prior year: EUR 1.0 million); net profit amounted to EUR 7.7 million (prior year: EUR 2.5 million), largely as a result of a positive technical tax effect of EUR 5.2 million (prior year: EUR 1.8 million) in connection with the formation of deferred taxes.

Petra von Strombeck, Magnus von Zitzewitz

Strong increase in market share

According to information published by the German Association of State Lottery Companies (DLTB) and the German Lottery Association (DLV), online revenues of the 16 state lottery companies and private lottery brokers with permits rose to EUR 937 million in the fiscal year 2018 (prior year: EUR 700 million). This corresponds to an online share of 13% (prior year: 10%).

Whereas stakes generated online by all state-owned companies together grew by 26.6% to around EUR 583 million (prior year: EUR 461 million), we grew almost twice as fast by 45.8%. Consequently, we once again expanded our online market leadership with a market share of 34% (prior year: 32%).

EUR 122 million for good causes

According to DLTB figures, over EUR 2.9 billion was transferred to the state budgets or beneficiaries in the form of taxes and duties in 2018 (prior year: EUR 2.8 billion). This corresponds to more than EUR 8 million per day for good causes throughout Germany – money which is absolutely vital for the financing of numerous projects in the field of welfare, sport and culture, as well as landmark and environmental protection.

»OVER ONE THIRD OF ALL ONLINE LOTTO PLAYERS NOW USE LOTTO24.«

Magnus von Zitzewitz

With our brokerage activities in 2018, we too provided EUR 122 million (prior year: EUR 84 million) for important social and community projects.

Recommendation to shareholders to accept the exchange offer

On 19 November 2018, ZEAL published a voluntary public takeover offer to all shareholders of Lotto24 AG. The offer contained the exchange of one new ZEAL share with a nominal value of EUR 1.00 as consideration for approximately 1.604 tendered shares of Lotto24 – an exchange ratio that corresponds to the ratio of the volume-weighted average prices of the shares of both companies over the three months prior to 19 November 2018.

On 12 February 2019, we issued our joint reasoned opinion of the Executive Board and Supervisory Board on the offer: first of all, we regard the type and amount of the takeover consideration offered by ZEAL as adequate within the meaning of section 31 (1) of the German Securities Acquisition and Takeover Act (»Wertpapiererwerbs- und Übernahmegesetz – WpÜG«) and are of the opinion that the cooperation between Lotto24 and ZEAL offers benefits and opportunities for both companies. Against this background, we recommended that all Lotto24 shareholders accept the exchange offer.

We must point out, however, that certain aspects may impact the value development of the Lotto24 shares on the one hand and the ZEAL shares on the other, and thus may alter the assessment of the adequacy of the offer consideration in a retrospective view. These aspects include, in particular, the agreements to be concluded between Lotto24 and ZEAL, whose terms and conditions still have to be agreed, a possible additional burden of ZEAL from value added tax payments, and various risks during the implementation of the cooperation. The above aspects and further aspects with a potential impact on value are described in detail in the joint reasoned opinion.

The supplement to our existing brokerage permit which we received from the Lower Saxony Ministry of the Interior on 8 February 2019 enables us to also broker lotteries to the state lottery companies via the domains Tipp24.de and Tipp24.com in future. This fulfilled a significant completion condition for our joint path with ZEAL. We therefore hope that you will continue to accompany us on this exciting journey.

Hamburg, 21 March 2019

Petra von Strombeck
Chief Executive Officer

Magnus von Zitzewitz
Member of the Executive Board

EXECUTIVE BOARD

PETRA VON STROMBECK, *Chief Executive Officer since May 2012, brings a wealth of experience from numerous management positions: Executive Board member and Marketing Director of Tipp24 SE, Managing Director of a French subsidiary of Tchibo, Head of e-commerce at Tchibo direct GmbH and Head of Advertising at Premiere Medien GmbH & Co. KG. International business administration degree at »Ecole des Affaires de Paris« in Paris, Oxford and Berlin.*

MAGNUS VON ZITZEWITZ, *member of the Executive Board since May 2012, previously held various management positions: Managing Director of the predecessor company Tipp24 Deutschland GmbH, Director of Corporate & Public Affairs of Tipp24 SE, COO of Bet 3000 AG, director or managing director of ProSiebenSat.1 Media AG, Stage Entertainment GmbH, MobilCom AG and Universal Entertainment GmbH. He studied media sciences and economics as well as communication research in Hanover, Germany.*

Win-Win-Win Situation

Big jackpots are good for us. And in 2018 we benefited from an unusually high number of them in the »EuroJackpot« lottery. As the jackpot gets bigger, the lottery draw gets more attractive, and we gain more customers than usual. We are delighted with this success and are proud that our work also provides significant funds for good causes.

OUR CUSTOMERS LIKE US

The success of our customer-focused approach is confirmed by various studies and direct feedback from our users. At the German Customer Awards in 2018, for example, we came 1st for outstanding customer satisfaction in the lottery sector. Within the framework of our cooperation with »Trusted Shops«, a consistent average rating of »very good« based on direct feedback from our customers speaks for itself. In January 2019, we were also named Germany's most popular online lottery provider in a customer survey held by »Deutsches Institut für Service-Qualität« (German Institute for Service Quality).

394,489,164.95€

Winnings paid out to our customers (without special draws) since 2012

13x €90M

EUROJACKPOT

The European lottery »EuroJackpot« is becoming increasingly important: with growth of over 61% and a total of 13 draws at the EUR 90 million mark, it developed much better in 2018 than in the previous year.

€31M

BIGGEST PAYOUT EVER

We make our customers happy! This is proven by the EUR 394,489,164.95 in winnings we have paid out to over 1.4 million customers since our launch in 2012. In late August 2018, we even thrilled one loyal Lotto24 customer in North Rhine-Westphalia with an incredible EUR 30,920,808.30 – the biggest single winning in our six-year history.

1.4M

WINNERS SINCE 2012

OLDEST WINNER 99 YEARS OLD

Boosted by big jackpots

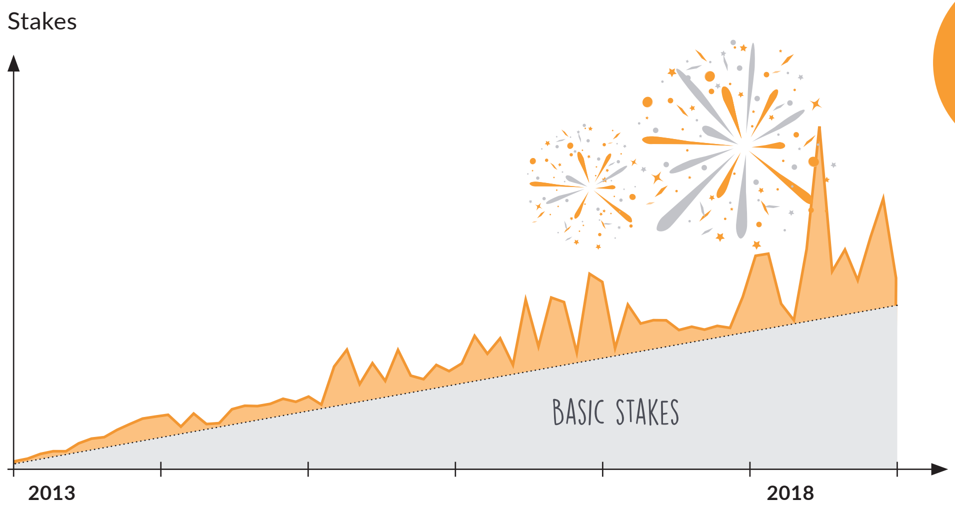
Our business is driven to a large extent by the jackpots of the »Lotto 6aus49« and »EuroJackpot« lotteries. One consequence of this are the strong fluctuations in stakes received with the same level of marketing spend. Our business can therefore be compared with other seasonal business models. We can neither predict nor influence the size of the jackpot. But we need to analyse its influence as precisely as possible in order to make the best-possible decisions.

Since 2017, we have therefore been intelligently linking different data in order to identify correlations and make predictions. This allows us to gauge more accurately how much our stakes depend on jackpots – and how much on other factors. With the aid of these models, we can then deduce our basic stakes – those adjusted for the influence of jackpots – and thus:

1. assess our past performance more accurately,
2. plan our future development more reliably – for example for our annual budget planning.

We will continue to work hard on refining our existing models and will use them more and more in other areas of the Company in order to answer similar questions.

JACKPOT INDEX MODEL



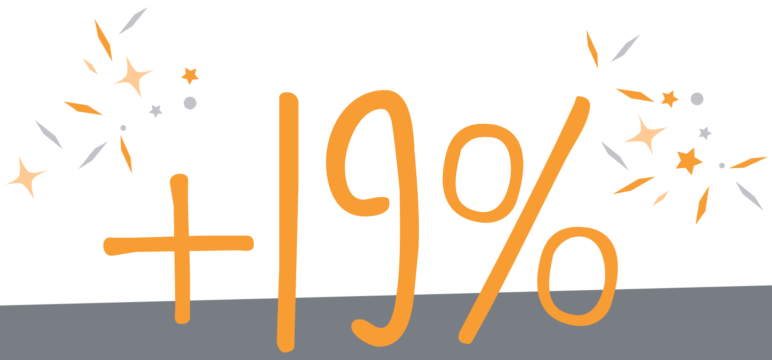
€122M
FOR GOOD CAUSES

We attach great importance to our Corporate Social Responsibility and make a significant contribution to causes which benefit German society as a whole – money which is absolutely vital for the funding of numerous projects in the field of welfare, sport and culture, as well as landmark and environmental protection.

01 |

THE LOTTO24 SHARE

The Lotto24 share price rose strongly again in 2018: with growth of 19% over the year, it easily outperformed the benchmark index SDAX, which fell by 20% over the same period.



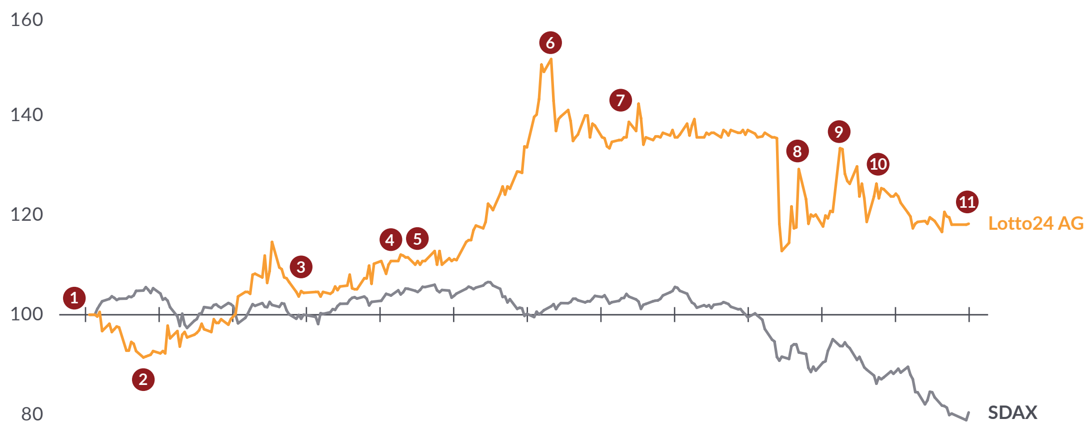
Stock markets 2018

In February and March, the US trade war with China and Europe brought about new lows on the international stock markets. Their subsequent recovery in the period up to September was not shared to the same extent by all indices. As in 2017, the European indices lagged behind their American counterparts. The reasons for this were domestic difficulties: Italy's debt burden and its budget dispute with the EU, the Brexit situation and ongoing uncertainty about its outcome, the slowdown in ECB bond purchases, the so-called »yellow vest« protests in France and profit warnings from certain companies which fuelled fears of a recession. Ultimately, the DAX and our benchmark index SDAX fell by 18% and 20% respectively over the course of the year.

Strong performance by Lotto24 share once again in 2018

On 2 January 2018, the Lotto24 share began the year at EUR 10.60 and fell to its year-low of EUR 9.66 on 22 January. With the publication of our Annual Report on 27 March, the share price already recovered to EUR 11.00, then rose to EUR 11.70 following our reporting on the first quarter of 2018 and closed at EUR 11.78 after our Annual General Meeting on 4 May 2018. Due to the exceptionally strong »EuroJackpot« development in the first half of 2018 and the related ad-hoc statement on our guidance upgrade, the Lotto24 share reached its year-high of EUR 16.22 on 9 July. Our share price fell slightly to EUR 14.50 on publication of the half-yearly financial report on August 8, but stabilised at around EUR 13 over the further course of the year: on 19 October and 7 November, the dates of the further guidance upgrade and interim statement for the third quarter, the share price stood at EUR 13.80 and EUR 13.70, respectively. In connection with the public takeover offer from ZEAL, the Lotto24 share was quoted at EUR 13.20 on 19 November and finally closed a successful stock exchange year 2018 at EUR 12.60 – up 19% on the beginning of the year.

PERFORMANCE OF THE LOTTO24 SHARE



02.01.2018 = 100

opening price
11,927.82 points (SDAX)
EUR 10.60 (Lotto24 AG)

28.12.2018

closing price
9,509.15 points (SDAX)
EUR 12.60 (Lotto24 AG)

1 02.01. Opening price 2 22.01. Lowest price 3 27.03. Publication Annual Report 2017
4 03.05. Publication of quarterly statement Q. I 5 04.05. Annual General Meeting 2018
6 09.07. Highest price + Ad hoc guidance upgrade 7 08.08. Publication of half-yearly financial report
8 19.10. Ad hoc guidance upgrade 9 07.11. Publication of quarterly statement Q. III
10 19.11. Ad hoc takeover offer 11 28.12. Closing price

Sixth Annual General Meeting

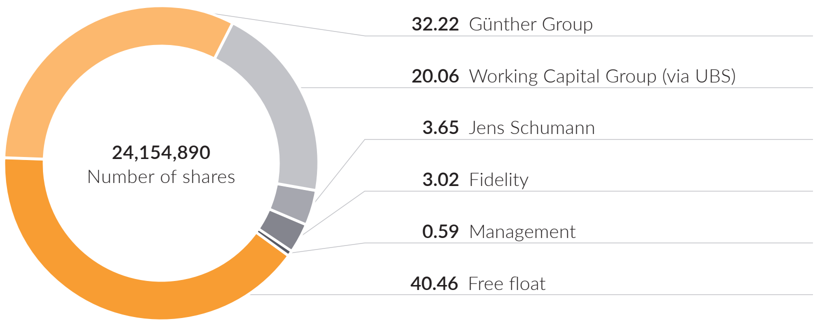
Our sixth Annual General Meeting as a listed company was held in Hamburg on 4 May 2018. With a total presence of around 57% of voting capital, the shareholders in attendance once again adopted all items on the agenda with large majorities. The agenda included the usual items, such as approval for the actions of the Executive Board and Supervisory Board, and the appointment of auditors for the annual financial statements.

Shareholder structure

As of 31 December 2018, the subscribed capital of Lotto24 AG amounted to EUR 24,154,890 and was divided into 24,154,890 no-par value registered shares. The shares are fully paid. Each share entitles the owner to one vote and is decisive in determining the corresponding appropriation of profit. Our shares are admitted for trading on the Regulated Market (Prime Standard) of the Frankfurt Stock Exchange. According to published voting rights notifications and Directors' Dealings, the shareholder structure was as follows on 21 March 2019:

SHAREHOLDER STRUCTURE [1)]

in %



[1)] *According to voting rights notifications and Directors' Dealings disclosures received up to 21 March 2019*

Dividend

As Lotto24 AG is a young company that has only recently reached break-even, we do not expect to generate a balance sheet profit for distribution in the near future – also in view of our loss carryforwards. Consequently, there are no plans at present to distribute a dividend to our shareholders.

Conferences and roadshows

In fiscal year 2018, we maintained close ties with the capital market: in addition to regular conference calls, we met investors and analysts at various conferences and roadshows in Frankfurt, London, Lyon, Munich and Zurich.

Analysts

In 2018, we were tracked and assessed by Joh. Berenberg, Gossler & Co. KG and M.M.Warburg & CO.

BASIC DATA ON THE LOTTO24 SHARE

WKN	**LTT024**
ISIN [1)]	**DE000LTT0243**
Ticker symbol	**LO24**
Reuters code	**LO24G.DE**
Bloomberg code	**LO24:GR**
Stock exchange	**Frankfurt**
Market segment	**Regulated Market, Prime Standard**
Designated sponsor	**ODDO SEYDLER BANK AG**

1) *International Securities Identification Number*

KEY FIGURES FOR THE LOTTO24 SHARE

	2018	2017
Number of shares on reporting day	**24,154,890**	24,154,890
Highest price (in EUR)	**16.22**	11.73
Lowest price (in EUR)	**9.66**	7.56
Share price on reporting day (in EUR)	**12.60**	10.35
Market capitalisation on reporting day (in EUR million)	**304.4**	250.0
Average daily trading volume (number)	**7,302**	20,807
Earnings per share (in EUR)	**0.32**	0.10

02 |

CORPORATE GOVERNANCE REPORT

In the following, the Executive Board and Supervisory Board report on the corporate governance and management of Lotto24 AG in accordance with section 3.10 of the »German Corporate Governance Code«.

Introduction

Good corporate governance is a central aspect of our corporate policy which extends to every area of the Company: a management and control system based on responsible and sustainable value growth. In addition to organisational and business policy principles, we believe that the internal and external mechanisms for controlling and monitoring the Company are integral components, as are the efficient cooperation between Executive Board and Supervisory Board, the transparent communication of Company activities and the respect of shareholder interests. With the aid of good corporate governance, we aim to promote the trust of national and international investors, financial markets, our business associates, employees and the general public in the management and monitoring of Lotto24 AG. To this end, we generally adhere to the recommendations of the German Corporate Governance Code (GCGC) in its current version of 7 February 2017.

In the Declaration of Conformity presented below – the latest version of which is also permanently available to shareholders on the Internet at Lotto24-ag.de – we explain which recommendations we do not observe and why we deviate from them. Declarations of Conformity no longer valid from the past five years are also made available on the website.

Disclosures on company management and corporate governance

Declaration of Conformity with the German Corporate Governance Codex according to section 161 of the German Stock Corporation Act (AktG)

I. The Executive Board and Supervisory Board of Lotto24 AG declare that since submitting their last declaration pursuant to section 161 AktG in March 2018, they have complied with all recommendations of the »Government Commission on the German Corporate Governance Code« in the version of 7 February 2017, published in the official part of the Federal Gazette on 24 April 2017, with the following exceptions:

1. *Section 3.8 (D&O insurance deductible)* The D&O insurance taken out for the Supervisory Board of Lotto24 AG does not include a deductible. The Executive Board and Supervisory Board take the view that a D&O insurance deductible does not constitute an adequate means of achieving the Code's objectives. As a rule, deductibles of this kind are insured by the executive bodies themselves, so that the actual purpose of the deductible is nullified and therefore ultimately all that matters is the level of compensation paid to the members of executive bodies.
2. *Section 4.2.2 (2) sentence 3 (vertical compensation comparison)* The Supervisory Board fulfils its duty to consider the appropriateness of compensation for members of the Executive Board. It also takes into account the Company's internal compensation structure. However, the Supervisory Board believes determining specific peer groups and considering development over time does not enhance the quality of their decisions and as such the Supervisory Board refrains from implementing these formal recommendations.
3. *Section 5.2 (2), 5.3.1, 5.3.2, 5.3.3, 5.4.6 sentence 3 (Chairing committees, forming committees, setting up an audit committee and a nomination committee, as well as their composition, consideration of membership in committees when setting remuneration)* In view of the fact that the Supervisory Board of Lotto24 AG consists of just three persons, in accordance with the Company's Articles, the Supervisory Board has not formed any committees, and in particular no audit committee or nomination committee.

4. *Section 5.4.1 (2) and (3) (Specification, consideration and publication of objectives for the composition of the Supervisory Board)* With regard to its own composition and that of the Executive Board, the Supervisory Board supports such aspects as internationality, female representation and independence. In view of the fact that the Supervisory Board of Lotto24 AG consists of only three members, and in view of the particular challenges facing the Supervisory Board in the current regulatory environment of Lotto24 AG, however, the Supervisory Board has refrained from formally stating objectives for its composition, beyond the mandatory requirements under stock corporation law, for the time being so as not to restrict its selection criteria with specific targets and quotas.

II. Furthermore, the Executive Board and Supervisory Board of Lotto24 AG declare that the recommendations of the »Government Commission on the German Corporate Governance Code« in the version of 7 February 2017, published in the official part of the Federal Gazette on 24 April 2017, will continue to be met in future with the exception of the recommendations stated and justified above.

Hamburg, March 2019

For the Supervisory Board of Lotto24 AG

The Executive Board of Lotto24 AG

Prof. Berchtold **von Strombeck** **von Zitzewitz**

Declaration on company management in accordance with section 289f German GAAP (HGB)

Declaration of Conformity

In accordance with section 161 AktG, the Supervisory Board and Executive Board have issued a Declaration of Conformity with the German Corporate Governance Code and made it permanently available to shareholders on the preceding pages of this Annual Report as well as via the Company's website (Lotto24-ag.de).

Composition and working practices of the Executive Board and Supervisory Board

As a German stock corporation, Lotto24 AG is subject to German corporate law and has a two-tier management system which currently consists of an Executive Board with two members and a Supervisory Board with three members. The Executive Board is responsible for the Company's management. It is obliged to act in the best interests of the Company and committed to sustainably raising the value of the Company.

The Supervisory Board appoints, monitors and advises the Executive Board. The two bodies work closely together: the Executive Board informs the Supervisory Board regularly, comprehensively and in due time about all issues relevant to strategy, planning, business development, risk position, risk management and compliance. The Supervisory Board is immediately informed about Lotto24's strategic alignment and ongoing development, as well as any deviations in the course of business from the defined plans and targets. The Supervisory Board regularly evaluates its work and adopts improvement measures as part of its annual efficiency review.

Petra von Strombeck (Chief Executive Officer) and Magnus von Zitzewitz (member of the Executive Board) manage Lotto24 in accordance with the provisions of German Stock Corporation Law, the Company's Articles of Association, the Executive Board's Rules of Procedure and the stipulations of the respective service agreements with the aim of achieving a sustainable added value. Petra von Strombeck is responsible for Corporate Strategy and Development, Marketing, Sales, the B2C (Business-to-Customer) and B2B (Business-to-Business) business fields, Investor Relations, Human Resources, and Organisation. Magnus von Zitzewitz is responsible for the divisions Legal Affairs and Regulation, Finance, Accounts, Taxes, Controlling, Compliance, Risk Management and Communication. In the course of the takeover offer of ZEAL Dr. Felix Menden will make use of his contractually agreed special termination right and will not assume his position as member of the Executive Board of Lotto24 AG. He had originally been scheduled to take office on 1 December 2018 and this was initially postponed to 1 May 2019 due to the takeover offer published by ZEAL on 19 November 2018. However, Dr. Menden will continue to be available to us as a consultant in the course of the business combination and will in particular accompany the future IT strategy, the implementation of the merger of the IT platforms, the restructuring of the IT organisation and other issues in connection with the IT systems. For this reason, Petra von Strombeck remains responsible for IT Strategy, IT Systems, IT Processes and IT Operation, as well as Process and Innovation Management and the B2G (Business-to-Government) business field, on an interim basis.

The Supervisory Board of Lotto24 AG consists of three members who are all elected by the Annual General Meeting. The Chairman and Deputy Chairman are elected from among the members of the Supervisory Board. The current composition of the Supervisory Board was confirmed by the Annual General Meeting 2017 with the re-election of all members. The regular period of office ends on expiry of the Annual General Meeting that resolves on the discharge of responsibility for the fiscal year 2021. In the case of a tie in voting, the Chairman of the Supervisory Board has the casting vote in a renewed vote on the same matter. The Supervisory Board advises and monitors the Executive Board in its management of business in accordance with the provisions of German Stock Corporation Law, the Company's Articles of Association and its own Rules of Procedure. It appoints the members of the Executive Board and the Rules of Procedure of the Executive Board include provisions regarding the necessary approval of the Supervisory Board for significant business transactions. Since the Company's change in legal form to that of a public limited company (»Aktiengesellschaft« – AG), the Supervisory Board has consisted of the members Prof. Willi Berchtold (Chairman), Jens Schumann (Deputy Chairman) and Thorsten Hehl. The Supervisory Board holds its meetings at least twice in each calendar half-year, either in the form of face-to-face meetings or telephone meetings (conference calls). The Supervisory Board approves the annual financial statements.

The Supervisory Board has adopted a skills profile for the committee as a whole. In its current composition, the Supervisory Board believes that it has the skills which are important with regard to the activities of Lotto24 AG. In particular, these include the following knowledge and experience:

- special knowledge and experience in the lottery business (market and competition),
- extensive knowledge in the field of finance/accounting and controlling,
- special knowledge in the field of IT in the e-commerce environment,
- experience in managing and monitoring a company, including corporate governance requirements.

To this end, at least one member of the Supervisory Board (the Chairman of the Supervisory Board, Prof. Willi Berchtold) has acclaimed expertise in the field of accounting or auditing.

In addition to the Executive Board and Supervisory Board, the Annual General Meeting acts as the third executive body. The Company's shareholders exercise their rights at the Annual General Meeting and are involved in fundamental decisions concerning Lotto24 AG. The Executive Board, Supervisory Board and Annual General Meeting are jointly committed to acting in the best interests of shareholders and to the benefit of the Company. Lotto24 AG's Annual General Meeting is held within the first eight months of the fiscal year. In accordance with the Articles, the Annual General Meeting is presided over by the Chairman of the Supervisory Board. The Annual General Meeting resolves on all matters that are reserved for it by law (including the election of Supervisory Board members, amendments to the Articles, the appropriation of net profit and capital measures). Our aim is to make it easy for our shareholders to participate in the Annual General Meeting: we publish all necessary documents on the Internet in advance and nominate a proxy for shareholders who is obliged to following their voting instructions.

Transparency

We attach great importance to providing information uniformly, comprehensively and promptly. The business situation and results of Lotto24 AG are disclosed via regular reporting in the form of our Annual Report, half-yearly financial report and quarterly statements. We also provide full and swift information by means of press releases and ad-hoc announcements on specific events in accordance with statutory regulations. All publications, press releases and announcements are available on our website (Lotto24-ag.de) in the Investor Relations section. Moreover, we are available for personal discussions at analyst, investor and telephone conferences as well as international roadshows. Lotto24 AG has also drawn up the mandatory list of insiders as required and informed the persons concerned about their statutory duties and penalties.

Auditing

Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft was elected as auditor for the annual financial statements for the first time in 2012. As of fiscal year 2017, the auditor partner in charge of the audit has been Jan Brorhilker.

Setting of targets for the share of women on the Supervisory Board and Executive Board, as well as in senior management positions

The German »Law on Equal Participation of Men and Women in Private-Sector and Public-Sector Management Positions« came into effect on 1 May 2015. It requires the Supervisory Board and Executive Board of Lotto24 AG to set targets for the share of women on the Supervisory Board and Executive Board, as well as in senior management positions.

In September 2015, the Supervisory Board set the target for the share of women on the Supervisory Board at the level reached at the time of adoption, in other words 0%. In the case of the Executive Board, the Supervisory Board set a target for the share of women at 30%. The Supervisory Board set the deadline for reaching these targets as 30 June 2017.

In September 2015, the Executive Board also set the targets for the share of women on the first and second levels below the Executive Board at the level reached at the time of adoption, in other words at 20% and 30% respectively. The Executive Board set the deadline for reaching both these targets as 30 June 2017.

The Executive Board and Supervisory Board have decided that the above mentioned targets – which have all been met since fiscal year 2016 – will also remain valid in the fiscal year 2019.

Directors' Dealings

According to Article 19 of the Market Abuse Regulation (MAR), members of the Executive Board and Supervisory Board, as well as related persons, are obliged to declare any purchase or sale of Lotto24 AG shares, insofar as the value of the transactions during one calendar year reaches or exceeds EUR 5 thousand. Lotto24 AG immediately publishes details of such transactions on its website and submits the corresponding voucher to the Federal Financial Supervisory Authority (»Bundesanstalt für Finanzdienstleistungsaufsicht«). The following transaction was reported to Lotto24 AG in the past fiscal year:

ISIN DE000LTT0243, SHARES

Name/company of reporting party	Status	Nature of transaction	Date, place	Number	Share price in EUR	Volume in EUR
Jens Schumann	Member of Supervisory Board	Disposal	11.07.2018 (over-the-counter)	400,000	14.40	5,760,000

Disclosure on shareholdings of executive bodies

According to information provided in January 2019, Mr Schumann held 882,536 shares (3.65%), CUATROB GmbH – a related company of the Supervisory Board Chairman, Prof. Berchtold – held 226,287 shares (0.94%) and the members of the Executive Board together held a total of 142,462 shares (0.59%) in the Company as of 31 December 2018.

03 |

REPORT OF THE SUPERVISORY BOARD

In 2018, the Supervisory Board of Lotto24 AG once again advised and monitored the Executive Board in the execution of its management duties.

Prof. Willi Berchtold

Cooperation between Supervisory Board and Executive Board

In the reporting period, the Supervisory Board of Lotto24 AG performed its statutory duties, as well as regularly advising the Executive Board and constantly monitoring its actions.

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

Meetings of the Supervisory Board in 2018

A total of five face-to-face meetings and a further seven conference calls were held in fiscal year 2018. All members of the Supervisory Board attended each meeting.

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

In view of the possible combination with ZEAL Network SE, the Supervisory Board also adopted resolutions on 4 December 2018 and 24 December 2018 to appoint consultants, in particular a financial advisor to provide transaction advice and to review the financial adequacy of the offer consideration proposed by ZEAL Network SE, as well as to conclude a Business Combination Agreement. The resolutions were adopted by circular written consent.

Main topics of discussion

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

- the development of revenues and earnings, as well as the financial position, of Lotto24 AG,
- the strategic alignment of Lotto24 AG,
- the determination, implementation and monitoring of IT strategy,
- the determination of regulatory targets and the corresponding strategic alignment,
- corporate planning, including marketing, investment and personnel planning,
- the development of the regulatory and economic environment in Germany with regard to games of chance and in particular lotteries,
- the fierce competition with secondary lotteries and their growing market establishment,
- the current risk exposure, as well as the risk management and compliance management systems,
- discussion and consultation of all business transactions requiring approval,
- the continuous improvement of corporate governance and its adaptation to new statutory requirements,
- the preliminary determination of target attainment for members of the Executive Board for fiscal year 2018 and the setting of targets for 2019,
- the possible combination with ZEAL Network SE in view of the publication of 19 November 2018 in which ZEAL Network SE announced decision to submit a voluntary public takeover offer.

Committees

In view of the fact that the Supervisory Board of Lotto24 AG consists of just three persons, in accordance with the Company's articles, the Supervisory Board has not formed any committees, and in particular no audit committee or nomination committee.

Corporate Governance and Declaration of Conformity

In the past fiscal year, the Supervisory Board once again discussed in detail the recommendations of the GCGC, taking into account the amended version of 7 February 2017. The Executive Board and Supervisory Board issued a Declaration of Conformity according to section 161 of the German Stock Corporation Act (AktG), which is also printed in the Corporate Governance Report. The Declaration states that the Company complied and continues to comply with the recommendations of the GCGC with the following exceptions: contrary to the recommendation in section 3.8, the D&O insurance taken out for members of the Supervisory Board does not include a deductible; with regard to the vertical compensation comparison, the Supervisory Board has refrained from implementing the formal recommendations of section 4.2.2 (2) sentence 3; contrary to the recommendation in section 5.2 (2), no committees of the Supervisory Board have yet been formed; and there are no formal targets regarding the composition of the Supervisory Board as recommended in section 5.4.1 (2) and (3), beyond the mandatory requirements under stock corporation law.

With regard to the resolution of potential conflicts of interest, the following is to be reported:

In view of the voluntary public takeover offer of ZEAL Network SE, the Supervisory Board members Jens Schumann and Thorsten Hehl informed the Chairman of the Supervisory Board in writing on 27 November 2018 that due to possible conflicting interests as to how to resolve the potential conflict of interest they would not participate in meetings and consultations on the takeover offer and only participate in voting by means of abstention. On the one hand, these declarations were made in view of the fact that Jens Schumann and Thorsten Hehl also hold seats on the Supervisory Board of ZEAL Network SE in addition to their membership of our Company's Supervisory Board. Moreover, Jens Schumann had already made an irrevocable commitment to ZEAL Network SE to accept the takeover offer for the shares he holds before the takeover offer was announced. Thorsten Hehl works for the Günther Group which controls Othello Vier Beteiligungs GmbH & Co. KG. The latter had also entered into an irrevocable tender obligation. Consequently, the Supervisory Board members Jens Schumann and Thorsten Hehl did not participate in consultations in connection with the takeover offer (including the mandating of consultants, the signing of the BCA, and the joint reasoned opinion) and abstained from voting on such matters. This did not impair the Supervisory Board's ability to act, as an abstention also represents a sufficient form of participation in the passing of resolutions.

In accordance with section 100 (5) AktG, Prof. Willi Berchtold was named as the Supervisory Board's financial expert.

Auditing

The annual financial statements for fiscal 2018 of Lotto24 AG, as prepared by the Executive Board in accordance with the German GAAP (HGB), and the separate financial statements of Lotto24 AG and respective management report for fiscal 2018 prepared in accordance with International Financial Reporting Standards (IFRS), as applied in the EU, and the additional commercial law regulations pursuant to section 325 (2a) HGB, were audited by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Hamburg, which issued an unqualified audit certificate in each case. The report prepared by the Executive Board on transactions with related parties (Dependent Company Report) was also audited by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Hamburg.

The Executive Board and auditors provided us with the respective documents in due time. These documents were thoroughly examined and discussed at the meeting of the Supervisory Board on 21 March 2019, which was also attended by the Executive Board and the chief auditor, who reported on his findings. The chief auditor was also questioned on the type and scope of the audit as well as on the audit findings. Prior to adoption, the chief auditor informed the Supervisory Board that there were no significant weaknesses in the internal control system. The Supervisory Board monitored the independence of the auditor and was able to satisfy itself that the audit had been conducted properly and complied with legal requirements.

The Supervisory Board concurs with the auditor's findings. Based on the final result of our own final examination, there are no objections to be raised. The Supervisory Board approved the annual financial statements and separate financial statements prepared by the Executive Board; the annual financial statements are thus adopted.

In accordance with section 312 AktG, the Executive Board prepared the above-mentioned Dependent Company Report for the fiscal year 2018. The following certificate was issued by the auditor of the annual financial statements: »On the basis of our audit and in our professional opinion we confirm that

1. the factual statements in the report are correct,
2. the payments made by the Company in the legal transactions listed in the report were not unduly high.«

The Dependent Company Report was also discussed and reviewed particularly in terms of thoroughness and accuracy during the balance sheet meeting of the Supervisory Board. The auditor reported on the key findings of his review of the Dependent Company Report and was at the Supervisory Board's disposal to answer questions and to provide information. The Supervisory Board does not raise any objections against the statement of the Executive Board at the conclusion of the Dependent Company Report and concurs with the findings of the auditor's review.

Takeover offer of ZEAL Network SE

On 15 November 2018, ZEAL Network SE, London, informed the Executive Board of Lotto24 AG that it intended to make a voluntary public takeover offer to all shareholders of Lotto24. The decision to actually submit such a takeover offer was publicly announced on 19 November 2018. Prior to this, major shareholders (namely the Günther Group, Working Capital and Jens Schumann (member of the Supervisory Board of Lotto24)) entered into irrevocable undertakings with ZEAL to accept the takeover offer.

Following intensive negotiations, a so-called Business Combination Agreement (BCA) was concluded on 24 December 2018. The Supervisory Board approved the signing of the BCA. In order to resolve any possible conflicts of interest, the Supervisory Board members Jens Schumann and Thorsten Hehl only participated in the vote by means of abstention. Among other things, the BCA contains provisions agreed by Lotto24 and ZEAL on the cooperation needed to achieve the targeted synergy effects and to receive the necessary approval of the relevant gaming authorities, which was to be a completion condition for the takeover offer. The basis for cooperation is the understanding of both parties that Lotto24 should retain its independence after conclusion of the takeover as a subsidiary of ZEAL in a de facto group, and that all relevant arrangements in connection with the cooperation should be made on an arm's length principle. The Executive Board and Supervisory Board of Lotto24 believe that the cooperation between Lotto24 and ZEAL on the basis of the BCA is in the strategic interests of the Company, its shareholders and its other stakeholders. According to ZEAL, the relevant anti-trust authority has already cleared the transaction intended by the takeover offer.

On 12 February 2019, the Executive Board and Supervisory Board issued a joint reasoned opinion pursuant to section 27 of the German Securities Acquisition and Takeover Act (»Wertpapiererwerbs- und Übernahmegesetz – WpÜG«) in which they expressed an opinion on the intentions of ZEAL Network SE and in particular on the financial adequacy of the takeover offer. Due to the possible conflict of interest in connection with the takeover offer, the Supervisory Board members Jens Schumann and Thorsten Hehl once again abstained from voting; prior to the adoption of the resolution, Messrs Schumann and Hehl were provided with a largely final draft of the joint reasoned opinion.

The Supervisory Board believes that the cooperation between the two companies offers advantages and opportunities for future business activities. The supplement to the brokerage permit of Lotto24 AG already issued by the Ministry of the Interior of Lower Saxony now allows the Company to also broker tickets to the state lottery companies via the domains Tipp24.de and Tipp24.com in future.

However, the Chairman of the Supervisory Board also held in-depth discussions with the Executive Board on those aspects which might pose a risk to the economic success of the proposed combination. These include in particular the uncertainty regarding the terms of the agreements to be negotiated between Lotto24 and ZEAL with regard to their cooperation, as well as a possible additional burden on ZEAL from VAT payments, and the general risks involved in implementing the cooperation.

On behalf of the Supervisory Board, its Chairman carried out the Supervisory Board's own independent review of the offer. The Supervisory Board considers the consideration offered by ZEAL to be adequate. In agreement with the Executive Board, the Supervisory Board unanimously recommends that Lotto24 shareholders should accept the takeover offer.

We would like to thank all employees of Lotto24 AG and the members of the Executive Board for their commitment and successful efforts during the past year.

Hamburg, 21 March 2019

Prof. Willi Berchtold
Chairman of the Supervisory Board

04 |

MANAGEMENT REPORT

Building on our long-standing management and sector experience, as well as our attractive range of products and services in the fast-growing online lottery market, we have positioned Lotto24 AG as the clear market leader. Our key performance indicators (KPIs) were once again very positive in a fiscal year 2018 which saw an exceptionally strong jackpot trend. We are well equipped to expand our market leadership.

PROFITABLE

BASIC PRINCIPLES OF THE COMPANY

Business model

Organisational structure

Lotto24 AG is a German public limited company (»Aktiengesellschaft«) with registered office in Hamburg, Germany, and operates on the basis of a functional organisational structure with a domestic business segment.

Promising business model

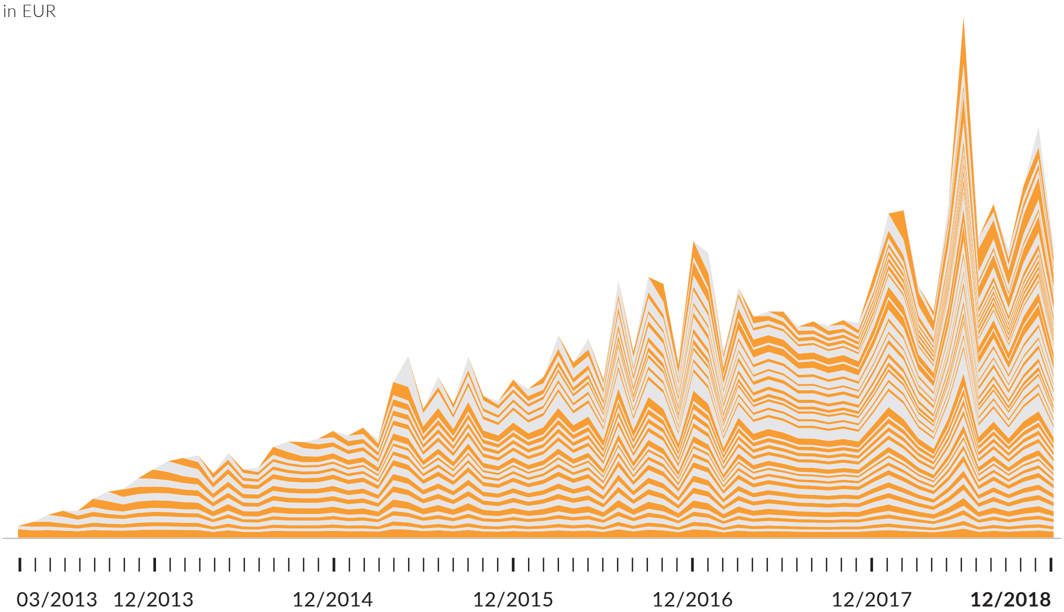
Lotto24 is attractively positioned in the value chain of the lottery business: we broker lottery products via the Internet (Lotto24.de) and receive brokerage commissions from the lottery operators. We can therefore generate income without bearing the bookmaking risk ourselves.

Amongst other things, we offer our customers the possibility to participate in the lottery products »Lotto 6aus49«, »Spiel 77«, »Super 6«, »EuroJackpot«, »GlücksSpirale«, »Keno«, lotto clubs and »Deutsche Fernsehlotterie«. On behalf of, and in the name of, our customers, we enter into gaming agreements with the respective lottery operator. Our products are well-known on the market. Our customers are convinced by the services, simple game processing and free additional features we provide for them.

In contrast to many other sectors, long-term loyalty is a major factor in our business model: customer generations remain loyal and provide us with long-term and stable gaming revenues.

BILLINGS PER CUSTOMER GENERATION

in EUR



Success factor marketing

Targets: winning and activating customers, raising awareness

Apart from raising general awareness of the »LOTTO24« brand and logo, the primary aim of our marketing activities is to increase the number of registered customers and billings. On the product side, we want to offer the best online lottery experience – in other words, make sure our customers can submit their lottery ticket to Lotto24.de as quickly, easily and securely as possible. We focus on ensuring optimal processes, such as ticket submission, while providing our existing and potential customers with highly competent and easily accessible services free of charge.

Our target group are all adults residing in Germany with an interest in German lotteries. Our clients are mostly male and between the ages of 30 and 60. In order to make our advertising investments as efficient as possible, we have derived further socio-demographic characteristics and other affinities which help us perfectly tailor our advertising media (targeting).

Our product management specialists create the best online lotto playing experience for our customers and develop new, innovative solutions which give Lotto24 a tangible competitive advantage.

With our own design department, we have an in-house marketing service which is responsible for producing all forms of graphical advertising material – such as the designing of our brand image or the responsive website Lotto24.de, which is programmed in close cooperation with the developments teams of our IT department. Wherever it makes economic or professional sense, we also work with external agencies and specialists.

Data-based control of all measures

Our business intelligence department – which deals with the analysis, preparation and reporting of company data stored by Lotto24 – uses a self-service portal for extensive reporting options. It enables all areas of Lotto24 to make the right data-driven decisions. In addition, we have installed separate tracking systems specifically for all areas of marketing so that we can check at all times how efficiently we are achieving our customer- or product-specific targets. The business intelligence team also provides support by calculating different forecast models – such as the jackpot index model, which illustrates how strong the influence of jackpots is on key performance indicators. Furthermore, the probabilities of specific customer responses to individual advertising measures can be calculated in advance in order to select the optimal target group for a campaign with minimal wastage.

We are capable of precisely measuring the success of all campaigns in real time and can thus rank the efficiency or contribution of each individual advertising measure to ensure the optimal use of our marketing budget. We also use customer surveys, as well as the corresponding analyses and tests in order to permanently enhance the playing experience of our customers. All data are administered and used exclusively for the improvement of our own products and services in strict compliance with data protection regulations.

Since the beginning of 2014, we have commissioned representative online surveys to collect all key brand performance data – and regularly discover that Lotto24 holds first place in unprompted brand awareness of online lottery providers. We received the same result in our most recent survey of 1,040 Internet users with an affinity for lotto conducted in January 2019: the Lotto24 brand was once again named first in unprompted awareness of all online providers with a share of 26% (prior year: 28%). In prompted responses, the share even rose from 73% to 75% – clear confirmation of our branding success. The survey also underlined the tremendous market potential: 85% of Internet users questioned could imagine playing lotto online in future (prior year: 83%) and 74% had specific plans to do so (prior year: 76%).

Advertising stepped up for large jackpots

Whenever there are exceptionally large jackpots to be won and interest in playing lotto is particularly strong throughout Germany, we run additional targeted advertising campaigns aimed at capturing new customers. The most relevant products in this context are »Lotto 6aus49« and »EuroJackpot«. With numerous record jackpot phases of up to EUR 90 million, the »EuroJackpot« has reached an even higher level of market penetration and awareness over the past few years. In 2018 in particular, the European lottery made a significant contribution to our growth, in terms of both new customers and billings.

Efficient sales

As part of our sales efforts, we are constantly on the lookout for new, effective and efficient ways to reach the desired target group.

Online marketing

Online marketing is the most important sales channel for our business model. We use affiliate marketing, which gives us the opportunity to place Lotto24 advertising and product offers on over 100 thousand publisher websites – which individually have low traffic, but collectively reach very high user numbers.

In the field of display advertising, we mainly use text links, ads placed in journalistic content (content ads), classic banners, ads loaded in the background (pop-unders) and special advertising formats which we place on high-traffic websites, especially during large jackpots, in order to reach as many potential customers as possible.

With the aid of online cooperation, we form long-term partnerships with major portals, such as news pages, or other suitable websites. We incentivise these partners by offering a share of revenues generated by jointly acquired customers and supply them with journalistic content.

It is essential for the success of Lotto24 that it can be found quickly and permanently by search engines. In order to use them as successfully as possible, we work constantly to ensure that we feature prominently on the result pages for key search items (search engine optimisation, SEO). Search engine advertising (SEA) is also an important element of our search engine marketing. We attract users of social media via targeted image-text teasers and in some cases via special social media campaigns designed to use the networking functions of these portals.

Around 64% of all Germans aged 14 and over now regularly use the Internet via their smartphone (source: Initiative D21, »Digitalindex 2017/2018«). In order to address and activate this huge group in the best possible way, we employ a number of advertising formats that are specially optimised for the usage situations and, above all, the display sizes of smartphones (mobile marketing).

Mobile sales

We have developed apps for the respective app stores of the two relevant mobile operating systems, »Android« (Google) and »iOS« (Apple), whose aggregated market share in Germany amounts to 99% (source: Kantar World Panel, 09/2018). These apps are specially designed to meet the needs of users and their devices – whether smartphone or tablet. The light version for Android without the possibility to play was originally listed in the so-called »Google Play Store«. However, we removed it from the store in 2017 as it cannot offer the service, and thus the benefit, that our customers expect from us due to Google's guideline for all gaming apps – which also affects our competitors. With reference to our official permit for lottery brokerage, we already applied to Google for the release of our full app in 2015. When and whether this will be granted, however, is currently unknown. Nevertheless, the full version of the Android app can also be downloaded at Lotto24-app.de. In the case of iOS, we launched an additional app for the Apple Watch.

Online advertising market

In an environment in which demand for online advertising possibilities is steadily growing, the long-term securing of high-performance placements and partnerships is one of our key core competencies. We not only rely on our own strength and bargaining power, but also use agencies to assist us in the selection and design of suitable advertising activities.

Marketing for long-term customer loyalty

In addition to a perfect overall product, we want to reach our aim of creating long-term customer loyalty above all by ensuring tailored dialogue marketing and perfect customer service. In order to achieve this, we use extensive customer behaviour analyses in order to contact customers at the best time with relevant content.

To ensure the best customer service in the lottery industry, we offer our target groups the three communication channels – telephone, e-mail and social media – free of charge, as a central component of our online lottery service. There is a defined service level for all three channels which is subject to continuous internal quality controls.

Ever since it has been possible to receive feedback via »Trusted Shops«, our customers have continually awarded us a rating of »very good« – clear proof of our first-class service. In addition to this European seal of approval, our web shop is TÜV certified: with its »Certified Data Protection« seal, TÜV Saarland confirmed the security of our personal customer data and their proper use – including all technical and organisational measures – in accordance with the provisions of the General Data Protection Regulation (GDPR) and the German Data Protection Act (BDSG). This certification documents the security of the Lotto24 online platform – a fact which also helps us in our marketing, sales and customer loyalty efforts.

In addition, the test institute »Deutsche Gesellschaft für Verbraucherstudien mbH« examined all major online lotto providers in Germany in June 2018: Lotto24 was the test winner twice in the extensive analysis, coming first in the categories Customer Satisfaction and Customer Treatment. Lotto24 was also judged to offer »Outstanding Value for Money«.

Introduction of scratch cards

With the launch of the first scratch cards for customers in Lower Saxony in September 2018, we expanded our product offerings by adding a new and exciting instant lottery to our product range. There is currently no standard nationwide ticket offered by the German Association of State Lottery Companies (»Deutscher Lotto- und Totoblock, DLTB«) for scratch cards. We therefore plan to gradually roll out further regional products in this segment – in accordance with our agreements with the individual state lottery companies for which scratch cards still have to be introduced or the necessary expansions of technical interfaces for game brokers still have to be implemented. We generally see exciting potential in this field, as we can catch up with the offerings of classic ticket shops and address new target groups.

Improved user experience for our customers

To continuously improve the overall user experience, we made numerous improvements to our website once again in 2018: for example, we have changed the site's navigation at the request of our customers. It now focuses on the three main activities of our users on the website – playing a lottery product (»Play now«), checking various draw numbers (»Results«), and signing in to check the content of their personal account (»Log in«). In addition, we have optimised the ticket overview for the benefit of our customers.

Key success factor IT

Decisive competitive factor: technological and methodical expertise

Customers bought around 26 million tickets from us in 2018 and tried their luck with almost 113 million tips. And as always: the higher the jackpot, the greater the demand in our online lottery shop. We need to be able to handle the ever-growing volume of transactions and peak loads without any problem, while at the same time offering our customers new products – for every device: computer, tablet or smartphone.

Several high-speed connections to the Internet are just one way in which we ensure loading times are kept to a minimum. In combination with methods that deliver differentiated content to customers and our in-house technology for database access, this means that many customers can be served at the same time with high levels of performance.

At the same time, the quality of our processes and our website is very important to us – after all, a customer looking to win millions must be able to trust that everything is going to run smoothly. In order to meet our own high standards for the customer at all times, automated tests during software development ensure that as many mistakes as possible are detected and remedied before any operation.

We are convinced that our high degree of technological and methodical expertise, which we continue to permanently develop, is a decisive factor for our success as an e-commerce company. As a result, our IT is based on state-of-the-art technologies whose central components we develop and operate ourselves in order to meet our needs swiftly and flexibly. Over 600 virtual servers run in our own private cloud. This gives us the flexibility, control and security we need. The fact that these systems are operated by our own IT team means they can be optimised swiftly whenever new experience is made during operation. Moreover, the team has distributed our private cloud over three data centres to ensure a high degree of fail-safe operation.

Software development is a further area which benefits from the close cooperation of our teams, whose skills and methods are continually trained and refined. In our daily work, we use agile methods (such as »kanban«) to ensure the most transparent product development process for flexible and swift project success. Modern processes and source code management allow us to work in a distributed manner. Small teams of five to seven experts work in isolation so they can focus on new topics and products. This enables us to roll out new products, such as scratch cards, as quickly as possible for our customers.

Management system

Key objective: raise the value of Lotto24's customer base

We manage Lotto24 according to a clearly defined KPI system aimed primarily at raising the value of our customer base. This is derived from the accumulated billings of active customers to total billings, as well as from the estimated future development of the intensity and duration of customer relationships.

Key financial figures

As we regularly review our key financial figures and their impact on corporate management, we have introduced new definitions as of the balance sheet date. The main financial KPIs which we use to steer the Company and whose values we aim to improve are therefore:

- **billings** (stakes placed by customers, influenced both by the variety and attractiveness of Lotto24's product portfolio and the efficiency of customer retention measures),
- **revenues** (commission for brokered tickets/stakes to be remitted and additional/ticket fees in connection with the brokerage of stakes),
- **gross margin** (ratio of revenues to billings),
- **EBIT** (earnings before interest and taxes, represents the Company's gross earnings over a certain period of time),
- the **number of registered customers** (customers who have successfully completed the registration process on the Lotto24 website. This number is disclosed after adjustment for multiple registrations and deregistrations.) and
- **CPL** (cost per lead, or marketing expenses per registered new customer) which we use to monitor the efficiency of our marketing efforts.

KEY FIGURES

	2018	2017
Billings (in EUR thousand)	321,832	220,736
Revenues (in EUR thousand)	38,289	25,216
Gross margin (%)	11,9	11,4
EBIT (in EUR thousand)	2,648	1,013
Number of registered customers on 31 December (in thousand)	2,169	1,573
Number of registered new customers (in thousand)	596	291
Cost per lead (in EUR)	25.88	27.32

Improved activity rate due to exceptionally strong jackpot trend

Although we no longer focus on customer activity primarily for corporate management purposes, following the ongoing development and optimisation of our business model, we are pleased to report an average activity rate of 25.6% in 2018 – well above the prior-year figure of 23.2%. This figure corresponds to the ratio of the average number of active customers to the average number of registered customers in one year. Due to the exceptionally strong jackpot trend, this figure is absolutely in line with our expectations.

We are also highly pleased with billings per active customer of EUR 652 in 2018 (prior year: EUR 654). This ratio shows the relationship between total billings of Lotto24 AG (including B2B and business services) and the average number of active customers. It should be noted that this KPI is overstated for the following reason:

We offer major online portals IT and marketing services for the operation of their own online lottery services (B2B and business services). In 2012, we already recruited two major partners as multipliers for these integrated services with WEB.de and GMX.net. The billings from these services and the corresponding revenues are included in our figures, but not disclosed separately for contractual reasons. Customers generated via these partners are therefore not included in the »Number of registered customers«.

REGISTERED CUSTOMERS

in thousand	**2018**	2017
Number of registered customers on 31 December of the previous year	**1,573**	**1,282**
First quarter (new customers)	180	95
Second quarter (new customers)	198	66
Third quarter (new customers)	90	55
Fourth quarter (new customers)	128	75
Number of registered customers on 31 December	**2,169**	**1,573**

Key non-financial figures

In addition to our key financial figures, we also steer Lotto24 AG on the basis of non-financial KPIs with a significant impact on our business success:

- We want to grow faster than our competitors. Our **market share of the online lottery segment** indicates to what extent we are achieving this aim.
- **Customer satisfaction:** an important element of our business is the loyalty of our existing customers, whose satisfaction is measured by annual surveys.
- Our business depends to a great extent on the skills, team spirit and motivation of the colleagues involved – a high degree of **staff satisfaction** is therefore essential for our activities.
- A further KPI for monitoring our quality as an employer is the **staff fluctuation rate.**
- **Corporate Social Responsibility** is already a firm component of our business model: according to DLTB, approximately 40% of stakes are donated to good causes. As our brokerage helped raise the billings of Germany's 16 state lottery companies by EUR 305 million in 2018 (billings remitted), around EUR 122 million was made available to social, sporting and cultural causes, as well as landmark protection activities, via DLTB.

KEY NON-FINANCIAL FIGURES

	2018	2017	Outlook 2019
Market share of online lottery segment [1]	34%	32%	still growing
Customer satisfaction [2]	86%	92%	still very high
Staff satisfaction [3]			
Identification with company	99%	95%	[4]
Recommendation as employer	99%	95%	[4]
Staff fluctuation rate	9%	14%	[4]
Corporate Social Responsibility Share of taxes and duties of the brokered stakes [5]	around 122 million EUR	around 84 million EUR	still growing

1) Source: German Lottery Association
2) Source: Customer satisfaction survey in January 2018 and January 2019 Data collection method changed from a phone-based survey to an online survey.
3) Source: Staff surveys 2017 and 2018
4) Due to the imminent takeover by ZEAL and its impact on HR work and employees, the future development remains to be seen
5) 40% of remitted billings (old calculation: 40% of billings)

Research and development

In order to ensure that software is perfectly adapted to our operational processes, we develop and operate the core components of such software ourselves. This applies in particular to our online platform, which covers the entire process chain from the online registration of our customers through the purchase of lottery products to the payment and transmission of the tickets to the lottery companies.

In addition to the permanent improvements to our platform as well as to the quality and user-friendliness of our offerings, the main focus in the reporting period was on preparations to broker the first online instant lotteries (scratch cards) and to cover the various device categories. We aim to use meaningful, up-to-date and proven technologies for each new product and each improvement. For example, container solutions in which subsystems can be replicated or moved flexibly across server systems, leading to better scalability in operation and maintenance. Other examples are libraries for mobile devices that work both in browsers and as apps and thus increase the efficiency of the development. And last but not least, the team implemented modern distribution mechanisms to deal with peak loads. In this way, we continue to keep pace with the latest technologies and remain an attractive employer for technical specialists.

Our own research and development costs are not capitalised.

ECONOMIC REPORT

Legal conditions

State Treaty on Games of Chance

In Germany, the offering of lotteries via the Internet is regulated by the German State Treaty on Games of Chance (»Glücksspielstaatsvertrag« – GlüStV). The current version of the GlüStV came into force on 1 July 2012 and replaced the general Internet ban of the previous State Treaty on Games of Chance (»GlüStV 2008«) from 15 December 2007. The new GlüStV offers private providers the possibility to receive an online brokerage permit. As a result, the business model of the commercial online lottery broker has been legally permissible in Germany again since 2012. However, the GlüStV still contains many important, restrictive regulations – especially with regard to online brokerage and advertising. Amongst other things, the conditions for receiving permits are highly uncertain. In addition, there is no legal claim to the granting of the respective permit, making any enforcement of rights in court much more difficult.

Nationwide brokerage permit

On 24 September 2012, Lotto24 AG first received the permit allowing it to broker state lotteries via the Internet throughout Germany. With a decision dated 26 July 2017, the Ministry of the Interior for Lower Saxony granted us the corresponding extension permit. It will expire on 30 June 2021, the day on which the current GlüStV also expires, and still contains many restrictive and in part uncertain ancillary provisions and conditions. Our entrepreneurial freedom is restricted above all by strict regulations regarding the age verification of players and the duty to divide gaming revenues among all 16 state lottery companies (regionalisation) – based on the player's place of residence. With a decision dated 29 March 2018, the Ministry of the Interior for Lower Saxony granted us our first permit for the online brokerage of state-operated instant lotteries (scratch cards). The permit initially applies solely to the federal states of Lower Saxony, Saxony and Hesse, where the state lottery companies have also received a corresponding game permit. It will expire on 30 June 2021, the day on which the current GlüStV also expires, and still contains many restrictive and in part uncertain ancillary provisions and conditions. We have been calling for permission to broker scratch cards for several years in order to be able to compete with foreign online providers.

Advertising permit

On 27 February 2019, the German authority responsible for advertising standards, the District Government of Dusseldorf, prolonged our advertising permit for the third time. It applies until the German GlüStV expires on 30 June 2021. The extension must always be requested and is not granted automatically. After receiving the extension, we continue to be authorised to advertise the online marketing of state lotteries throughout Germany via the Internet and TV, thus driving the further expansion of Lotto24's customer base. The renewal of the advertising permit and the resulting legal certainty it continues to provide form the basis for the planned expansion of our business and Lotto24's market share.

Legal uncertainties due to the GlüStV

In our opinion, there are still significant legal uncertainties under the current GlüStV: it is still not finally settled whether individual prohibitions and restrictions, or the GlüStV as a whole, are appropriate and thus legally valid. In the medium to long term, it is also uncertain which regulatory targets will be maintained and which objectives the regulatory framework in Germany will pursue. Regulation of online lottery brokerage in Germany is still based primarily on the hypocritical aim of preventing addiction, without considering the low risk potential of those lotteries allowed in Germany. Much more dangerous games of chance, such as gaming machines, are subject to less restrictive regulations. In the case of sports betting – which is also more dangerous in terms of the potential danger of addiction – the GlüStV plans to break up the monopoly and transfer it to a liberal concession model. An experimentation clause, by means of which licences for private sports betting offerings were to be granted initially for a limited period of time, did not lead to a single licence being granted over the years; the experiment has not yet been carried out due to a lack of permitted offerings. There is no rational justification for the severe restrictions placed on lotteries based on the prevention of addiction. At the same time, there is an enforcement deficit with regard to illegal offerings. There are still numerous online providers of lottery betting not allowed in Germany which can be accessed in Germany. For the reasons stated above, we therefore regard significant provisions of the GlüStV and their implementation as incoherent, unlawful, unsuitable and thus inapplicable with regard to the primacy of the fundamental freedoms under EU law.

Legal proceedings on the GlüStV

In its decision of 25 July 2017, the Administrative Court of Munich indicated a particular incoherency of the actual situation at present. A state monopoly whose main aims include preventing addiction risks for the population, should not at the same time extensively promote the products offered by this monopoly. Only modest advertising should be allowed, aimed solely at channelling existing interest among the population towards those games which are permitted. Excessive incentives which are likely to awake an interest in gaming are inadmissible. Compliance with this consistency requirement would result in a de facto advertising ban for the lottery products offered by the monopoly.

These ongoing inconsistent basic structures of the GlüStV – especially the licensing procedure for private sports betting providers which has still not been implemented after six years – have led to numerous legal proceedings, the majority of which have criticised the licensing procedure in their verdicts. On 5 and 27 May 2015, the Administrative Courts of Wiesbaden and Frankfurt am Main ordered a temporary injunction regarding the issue of sports betting licences pending principal proceedings and expressed significant doubts regarding the transparency and legality of the proceedings. On 25 September 2015, the Administrative Court of Bavaria also ruled that key elements of the GlüStV were unconstitutional: firstly, the advertising guideline is inapplicable in Bavaria, secondly parts of the majority decisions of the Gambling Council are thus unconstitutional.

On 16 October 2015, the Administrative Court of Hesse finally stopped the licensing process anchored in the GlüStV for awarding sports betting licences. The court criticised in great detail the establishment of a Gambling Council as the central authority on gaming regulation in Germany. The extensive powers, decision-making authority and responsibilities defined in the GlüStV contradicted the federal structure of Germany's basic law and were neither constitutional nor democratically legitimised. Moreover, the Gambling Council was not subject to any supervision. There was no guarantee that proceedings would be conducted in a transparent, objective and non-discriminatory manner.

The European Court of Justice (»ECJ«) last expressed its criticism of the permit requirement for the brokering of sports betting included in the GlüStV in 2016. In its ruling of 4 February 2016 in the matter »Ince«, the ECJ declared the permit requirement for sports betting products – a core element of German gaming regulation – to be inapplicable until further notice. German authorities are not allowed to negatively sanction sports betting products permitted in other EU countries, as long as the licensing procedure for sports betting – which is included in the GlüStV but has failed in practice – does not comply with the EU's legal principles of equal treatment and transparency. As a consequence, non-licensed sports betting can be operated, brokered and advertised in Germany until further notice – in sports betting shops or via machines. On the other hand, the Federal Administrative Court confirmed the Internet ban and the associated prohibition options for online casinos. The permit requirement for the organisation and brokerage of games of chance was confirmed. Various courts have also confirmed advertising bans for unauthorised online offerings of so-called secondary lotteries. However, gambling of all kinds is still very much present on the Internet and there has been a repeated lack of enforcement in relation to these offerings. By contrast, lotteries are still subject to extensive restrictions. This demonstrates the incoherency and inconsistency of the GlüStV and should prompt the legislature to make amendments which may lead to a gradual lifting of restrictions for permitted state lotteries in the medium term. The ECJ's ruling underlines that an infringement of obligations to notify state regulations for online services results in inapplicability. As the German states have not so far notified the GlüStV's Internet and advertising guidelines to the European Commission, this means that the restrictions therein are inapplicable according to the principles of EU law.

EU Commission's criticism

The pilot proceedings already brought against the Federal Republic of Germany by the EU Commission in 2015 in preparation of infringement proceedings were terminated in late 2017 for purely political »opportunistic« reasons. However, this did not end the fundamental criticism of Germany's gaming regulation. Within the pilot proceedings, the Commission called upon the German states to comment on the incoherence of German gambling regulations, including a justification of the so-called regionalisation principle for lotteries. The justification offered by the German states for banning lottery brokers from operating in other German states is that it prevents the »promotion of gambling«. In view of the very low addictiveness of lotteries, however, the EU Commission does not follow this view. Since a second revision of the State Treaty on Games of Chance, which was intended to eliminate deficits in the previous State Treaty and pave the way for the granting of licences for sports betting providers, has not yet come into effect due to disagreement between the federal states, the latter are now discussing amendment proposals for a GlüStV 2021 after the current GlüStV expires.

Legal disputes and regulatory proceedings Lotto24

Lotto24 is conducting various court proceedings to review the restrictions of the brokerage permits and online advertising licences which have been granted since 2012.

The first lawsuit, which related to ancillary provisions of the previous brokerage permit for Lotto24 which expired in 2017, did not result in a ruling of the highest court by the Federal Administrative Court (Bundesverwaltungsgericht).

Before the hearing on 14 November 2018, however, we decided on careful analysis of the opportunities and risks to withdraw the appeal. Lotto24 wanted to use this signal in November to also unburden the political talks about a politically sensible, legally acceptable new regulation for German lotteries and lottery brokerage of the legal dispute and hopes in this respect for a new and appropriate political regulation in the new State Treaty.

However, Lotto24 continues to conduct administrative proceedings aimed at removing the restrictions of the current brokerage permit and the current online advertising permit, as we continue to regard these restrictions as disproportionate and unlawful. The proceedings are still pending in the first instance, however. A final clarification of the underlying fundamental questions is not expected in the foreseeable future.

We also challenged the advertising permit granted in January 2017 before the Administrative Court of Hamburg (VG Hamburg) due to the continued and identical restrictions it contains. We attempted to speed up a ruling on these new proceedings by the first instance of VG Hamburg in order to bring about an initial ruling in the second instance by the Higher Administrative Court (OVG) Hamburg. No date has been set so far for a hearing in this case either.

Political developments on reforming the GlüStV

At the moment, a clear position of the federal states is not yet discernible: some of the states are striving for liberalisation – even of online casino offerings. The others vehemently advocate maintaining the strict regulations and the limited scope of gaming offerings in Germany so as not to endanger the existence of the state's lottery monopoly. According to these states, the lottery monopoly can only be justified by consistently aligning itself with the prevention of gambling addiction. For many years, we have been of the opinion that a broader justification of the monopoly would eliminate the current legal uncertainty and at the same time not endanger the existence of the lottery monopoly.

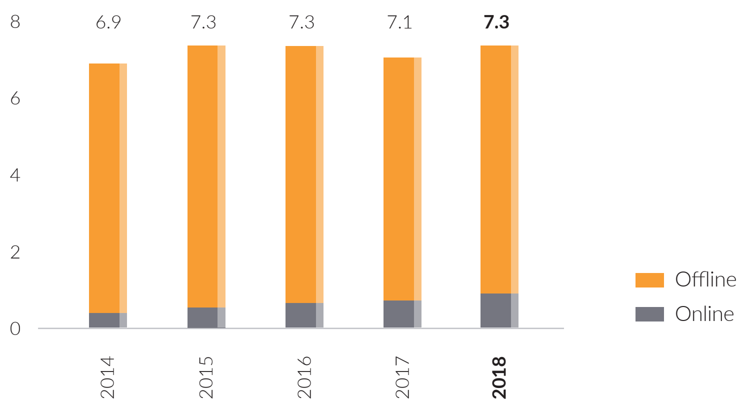
Economic conditions

Slight growth of German lottery market

According to its own figures and including terrestrial lottery ticket retailers, DLTB revenues grew by around 4% to more than EUR 7.3 billion in the fiscal year 2018 (prior year: EUR 7.1 billion). Despite a decline of over 6%, the lottery »Lotto 6aus49« remained Germany's most popular lottery with revenues of just under EUR 3.5 billion (prior year: EUR 3.7 billion) and nearly 50% of total stakes. With growth of over 61% to EUR 1.5 billion (prior year: EUR 0.9 billion), the European lottery »EuroJackpot« was the second most popular lottery product in 2018. This was due to the exceptionally strong jackpot trend with a total of 13 draws at the EUR 90 million mark. Other DLTB products include »Spiel 77«, »Sofortlotterien«, »Super 6«, »GlücksSpirale«, »Oddset«, »Keno«, »Bingo«, »Toto«, »Plus 5« and »Sieger-Chance«.

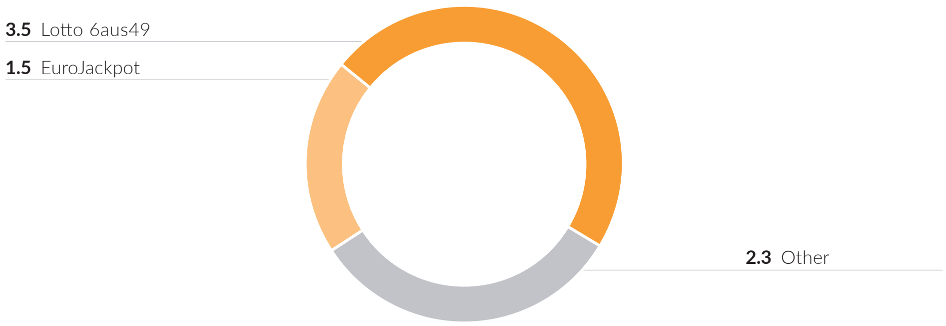
TOTAL MARKET DEVELOPMENT

in EUR billion



REVENUE SHARES OF »DEUTSCHER LOTTO- UND TOTOBLOCK« 2018

in EUR billion



Huge potential of online segment

67.5 million adults live in Germany, of whom 22.2 million play lotto (source: »Nielsen PanelViews September 2015«). Since the beginning of 2014, we have been commissioning representative online surveys to collect all key brand performance data. Our most recent survey in January 2019 of 1,040 Internet users with an affinity for lotto once again confirmed the huge market potential of the online lottery segment: 85% of Internet users polled could imagine playing lotto online in future (prior year: 83%) and 74% had specific plans to do so (prior year: 76%). Translated to 22.2 million lotto players, this 74% represents a market potential of 16.4 million potential online lotto players. Based on total lottery revenues of around EUR 7.3 billion, this corresponds to potential online lottery revenues of EUR 5.4 billion.

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

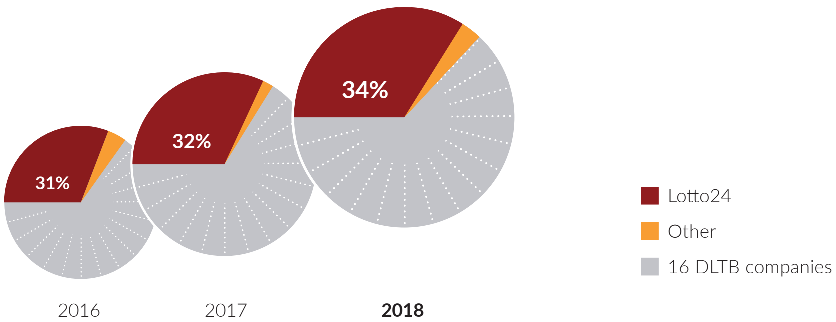
- As online lottery offerings were completely forbidden until mid 2012, we expect further strong revenue growth.
- Compared with foreign online lottery markets, which were less strictly regulated in the past few years, we expect above-average growth for Germany in the medium term.

The growing importance of e-commerce as a sales channel and mobile offerings are strengthening this trend: in 2018, 50% of all banking was done online (source: Bankenverband, »Jeder zweite Bundesbürger nutzt Online-Banking«, June 2018), 47% of music was sold online in 2017 (source: Bundesverband Musikindustrie, »Musikindustrie in Zahlen 2017«) and 40% of trips were booked online in 2017 (source: DRV, »Der deutsche Reisemarkt Zahlen und Fakten 2017«, July 2018). Our assessment is confirmed by the current growth rates of the online segment. According to information of DLTB and DLV, online revenues of state lottery companies and private brokers have been steadily rising: from EUR 35 million in 2012, revenues already reached EUR 700 million in 2017 and rose by a further 34% to EUR 937 million in fiscal year 2018. Online sales thus accounted for approximately 13% of total German lottery sales in 2018 (prior year: 10%) – a share which is still far below the comparative figures of other countries and that of other German online markets. Even including the secondary lotteries, our calculations show that the online proportion was only 18% in 2018 (prior year: 15%) – there is still plenty of room for growth.

Lotto24 extends its market leadership

Whereas stakes generated online by all state-owned companies together grew by 26.6% to around EUR 583 million (prior year: EUR 461 million), we grew almost twice as fast by 45.8% to EUR 322 million (prior year: EUR 221 million). Consequently, we once again expanded our online market leadership with a market share of 34% (prior year: 32%). The other lottery brokers achieved around EUR 32 million in total (prior year: EUR 18 million).

LOTTO24'S SHARE OF THE PERMITTED ONLINE MARKET



Advertising and competition

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

According to information of the relevant Ministry of the Interior for Lower Saxony, 15 private commercial gaming brokers had valid brokerage permits at the end of the reporting period – in addition to the state-owned companies. Once again, however, the advertising activities of our private competitors with permits in Germany as a whole were quite modest in 2018.

Secondary lottery providers (who have neither the necessary brokerage nor advertising permits for Germany) once again aggressively advertised their products on TV and the Internet in the first half of 2018. However, in August 2018, the state media authorities successfully implemented their ban on television advertising for lottery offerings without permits for television broadcasters and a secondary lottery provider. The courts in Berlin and Munich which the broadcaster and the provider appealed to, confirmed the bans in interim legal protection proceedings (VG Berlin, ruling of 24.08.2018, file ref. 27 L 350/18; VG Munich, ruling of 09.08.2018, file ref. M 17 S 18/3799, confirmed by BayVGH, ruling of 21.09.2018, file ref. 7 CE 18/1722 and ruling of 05.09.2018, file ref. M 17 S 18/3843). As of September 2018, there has therefore been a significant decline in the advertising spend of lottery providers without permits in particular, which indicates a corresponding decline in their advertising measures.

In this context, however, it should be noted that the secondary lottery provider ZEAL published a takeover offer on 19 November 2018, on completion of which it intends – among other things – to discontinue its secondary lottery business in Germany. As a result, the advertising spend of lottery providers without permits in Germany is likely to fall even more in future.

In February 2019, the media regulatory bodies of the federal states issued a joint letter to put pressure on Germany's private television and radio stations to stop broadcasting commercials for illegal online casinos. The state media authorities are thus taking targeted action against the fact that numerous broadcasters are ignoring the advertising ban for illegal gambling enshrined in the State Treaty on Games of Chance and broadcasting commercials for online casino sites without German licences.

We monitor our relevant competitors, for example, by regularly and systematically testing the respective websites. In addition, we use media monitoring and social media monitoring to gather and evaluate social signals of Internet users with regard to specific sectors, brands or defined websites. This enables us to discover what this target group thinks about us and our competitors so that we can react accordingly. In the course of our brand tracking activities, we also regularly collect information on our competitors. We do not therefore rely solely on our own subjective perception, but also use customer surveys when defining the direction in which we want to evolve and how we can clearly differentiate ourselves from the competition.

Jackpot trend

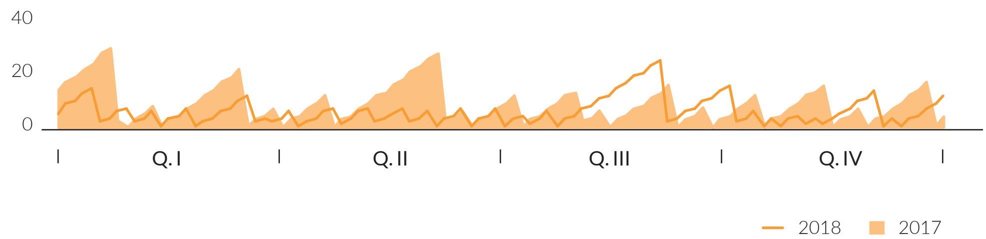
We expect particularly strong increases in the activity rate and number of registered customers when potential players have greater expectations of exceptional winnings, in other words whenever there are large jackpots. Such jackpots are comprised of stakes submitted by players who did not meet the conditions for winning prizes and which are then paid out to the winners on top of regular prizes in a subsequent draw. In the German »6aus49« lottery, this relates in particular to the combination of six correct numbers and the super number.

In 2018, the German lottery »6aus49« reported just one single jackpot of over EUR 20 million (prior year: three) which led to one guaranteed jackpot payout after the 13th draw (prior year: two). However, the significance of large »Lotto 6aus49« jackpots continues to steadily decline in view of the much larger jackpots of the European lottery »EuroJackpot«: the latter reached the EUR 90 million mark in a total of 13 draws in 2018 and thus performed much better than in the previous year when the EUR 90 million mark was reached in just one draw.

On the basis of statistical probability, we therefore expect lower jackpots in fiscal year 2019 than in 2018.

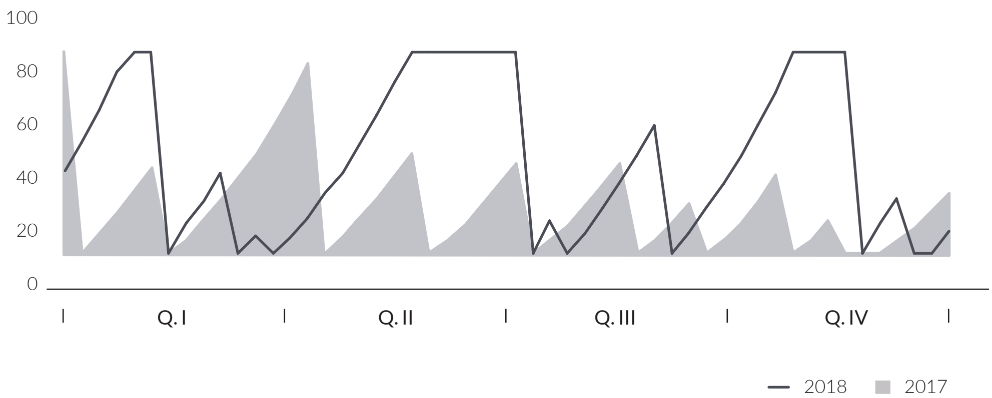
Lotto 6aus49

in EUR million



EuroJackpot

in EUR million



Business development

Forecast

Due to the exceptionally strong jackpot trend, our performance in fiscal year 2018 was better than originally expected: on 19 October 2018, we therefore upgraded our forecasts of 1 February 2018 and 5 July 2018.

FORECAST COMPARISON

	Forecast (01.02.2018/05.07.2018/ 19.10.2018))	**2018**	2017
		Actual	Actual
Billings	Increase of 15% to 20%/ Increase of 25% to 30%/ Increase of 38% to 43%	EUR 321.8 million (+45.8%)	EUR 220.7 million
Gross margin	Slight improvement on previous year	11.9%	11.4%
Marketing expenses	Increased marketing investments	EUR 15.4 million	EUR 7.9 million
CPL	Higher than previous year/ on par with previous year	EUR 25.88	EUR 27.32
EBIT	Above break-even/ Well above break-even	EUR 2.6 million	EUR 1.0 million
Net profit	Above break-even/ Well above break-even	EUR 7.7 million	EUR 2.5 million
New customers	Growing number of new customers/ Strongly growing number of new customers	596 thousand	291 thousand

With 596 thousand new customers in fiscal year 2018 (prior year: 291 thousand), the total number of customers registered with Lotto24 rose by 37.9% to 2,169 thousand (prior year: 1,573 thousand).

Thanks to efficient marketing activities – which we adapt to the prevailing jackpot trend – we were able to reduce cost per lead (CPL) to EUR 25.88 in 2018 (prior year: EUR 27.32).

We regularly assess whether, and to what extent, we should continue our current media mix. Depending on the jackpot situation, the size of our marketing expenses, the media mix and the behaviour of our competitors, CPL will thus continue to fluctuate on a quarterly basis in future.

POSITION

Earnings position

INCOME STATEMENT

	2018	2017 adjusted	
	in EUR thousand	in EUR thousand	Change %
Billings	321,832	220,736	45.8
Stakes to be remitted (less revenues)	**-283,543**	**-195,520**	**45.0**
Revenues	**38,289**	**25,216**	**51.8**
Personnel expenses	-9,048	-8,873	2.0
Impairment loss for financial assets 1)	-599	-511	17.4
Other operating expenses 1)	-25,038	-13,823	**81.1**
less other operating income	246	38	540.8
Operating expenses	**-34,439**	**-23,168**	**48.7**
EBITDA	**3,850**	**2,048**	**88.0**
Amortisation and depreciation	-1,202	-1,035	16.1
EBIT	**2,648**	**1,013**	**161.4**
Financial result	-118	-293	-59.6
Earnings before taxes	**2,529**	**720**	**251.4**
Income taxes	5,168	1,813	185.1
Net profit	**7,697**	**2,533**	**203.9**

Breakdown of other operating expenses			
Marketing expenses	-15,423	-7,890	95.5
Direct operating expenses	-3,015	-2,009	50.1
Indirect operating expenses	-6,599	-3,924	68.2
Other operating expenses	**-25,038**	**-13,823**	**81.1**

1) *Prior-year figures adjusted correspondingly due to IAS 1 (82) (ba)*

Exceptionally strong progress in all KPIs

Due to the exceptionally positive external conditions with high jackpots of the European lottery »EuroJackpot« – especially compared to the weak jackpot trend of the previous year – we raised billings by 45.8% to EUR 321,832 thousand in 2018 (prior year: EUR 220,736 thousand) and revenues by 51.8% to EUR 38,289 thousand (prior year: EUR 25,216 thousand).

We generated revenues mainly from

- commissions received for the brokerage of lottery products of the state lottery companies in accordance with the existing contractual regulations, as well as from
- additional fees/ticket fees incurred in connection with the brokerage of stakes.

The gross margin in 2018 as a whole improved to 11.9% (prior year: 11.4%).

EBIT and net profit well above break-even

Despite the sharp rise in marketing expenses in 2018, we succeeded in improving EBIT to EUR 2,648 thousand (prior year: EUR 1,013 thousand) thanks to the strong revenue trend. There was also a significant year-on-year increase in net profit to EUR 7,697 thousand (prior year: EUR 2,533 thousand). This was mainly due to a positive technical tax effect in connection with the formation of deferred taxes amounting to EUR 5,225 thousand (prior year: EUR 1,813 thousand).

The financial result amounted to EUR -118 thousand (prior year: EUR -293 thousand). This figure includes interest paid on loans taken out.

Earnings per share improved to EUR 0.32 (prior year: EUR 0.10).

Development of key income statement items

At the end of the reporting period on 31 December 2018, Lotto24 AG had 103 employees (full-time equivalents, excluding the two Executive Board members and student helpers, prior year: 89). 41% of employees (prior year: 39%) and 8 student helpers (prior year: 7) were employed in Marketing (including customer service) and 39% (prior year: 40%) in the IT department. The average headcount of the quarterly reporting dates was 96 employees in 2018 (prior year: 86).

Despite the year-on-year decrease in expenses for long-term, multi-year variable remuneration components for Executive Board members (EUR 786 thousand; prior year: EUR 1,482 thousand), personnel expenses rose marginally by 2% in 2018 due to the increase in headcount in absolute terms (up 15%) and higher expenses for variable remuneration components of employees.

Other operating expenses rose year on year by EUR 11,215 thousand, from EUR 13,823 thousand to EUR 25,038 thousand.

The following factors influenced this development:

- Due to exceptionally positive market conditions with high jackpots for the »EuroJackpot« lottery, resulting in an increase in our marketing activities, as well as the test run of comparatively more expensive TV commercials in the first half of 2018, **marketing expenses** of EUR 15,423 thousand were well above the prior-year figure of EUR 7,890 thousand.
- As a result of increased billings, **direct costs of operations** (mainly costs for billings-related payment transactions as well as B2B and business services) rose from EUR 2,009 thousand to EUR 3,015 thousand. We expect that direct costs will continue to increase in future, as they develop more or less in proportion with billings.
- **Indirect operating expenses** increased from EUR 3,924 thousand to EUR 6,599 thousand. As we strengthened our internal IT teams with freelancers due to the lack of skilled staff, there was a particularly strong rise in the use of external IT management and consultancy services to EUR 3,474 thousand (prior year: EUR 1,648 thousand). At the same time, there was an increase in costs for office space to EUR 876 thousand (prior year: EUR 447 thousand) and in other personnel expenses to EUR 631 thousand (prior year: EUR 366 thousand).

Scheduled depreciation/amortisation of tangible and intangible assets for investments in our IT infrastructure, our smartphone and tablet apps, and our acquired office and communication technology rose to EUR 1,202 thousand (prior year: EUR 1,035 thousand).

Financial position

Principles and objectives of capital management

Lotto24 AG operates an independent capital management system. All decisions concerning the Company's financial structure are taken by the Executive Board. Further information is provided in section 25 of the notes to the consolidated financial statements.

Financial analysis

Our financial situation is mainly shaped by equity and short-term liabilities. The proportion of long-term liabilities was down year on year by EUR 504 thousand. The subscribed capital of Lotto24 AG is unchanged from the end of the reporting period 2017 (EUR 24,155 thousand; prior year: EUR 24,155 thousand).

As of 31 December 2018, equity amounted to EUR 32,326 thousand (prior year: EUR 24,629 thousand) and comprised the following items:

EQUITY

in EUR thousand	**31.12.2018**	31.12.2017
Subscribed capital	24,155	24,155
Capital reserves	2,415	2,415
Retained earnings	5,756	-1,942
Total	**32,326**	**24,629**

Subscribed capital equals the Company's share capital and is fully paid.

The Authorised Capital of Lotto24 AG amounts to EUR 2,196 thousand.

Retained earnings include the profit/loss carried forward, as well as the profit of the current fiscal year.

As of 31 December 2018, capital reserves amounted to EUR 2,415 thousand (prior year: EUR 2,415 thousand) and include the legal reserve required by section 150 (2) AktG, which accounts for a tenth of share capital.

The balance sheet total rose by EUR 7,695 thousand, from EUR 42,693 thousand to EUR 50,388 thousand.

Trade payables of EUR 1,934 thousand (prior year: EUR 1,416 thousand) mostly comprise open payment obligations at the end of the reporting period for marketing services already received and for technical and legal consultancy. All trade payables have remaining terms of up to one year.

The current financial liabilities comprised the following items:

CURRENT FINANCIAL LIABILITIES

in EUR thousand	**31.12.2018**	31.12.2017 adjusted
Liabilities from gaming operations	11,197	9,532
Interest-bearing loan	193	2,283
Other	45	231
Total	**11,435**	**12,046**

The items »Amounts due in connection with taxes (VAT, payroll and church taxes) and social security« (2018: EUR 449 thousand; prior year: EUR 431 thousand) and »Holiday obligations« (2018: EUR 123 thousand; prior year: EUR 90 thousand) which were disclosed in 2017 under »Other liabilities« are now disclosed in the item »Other current liabilities« in order to achieve a separation of financial and non-financial assets in the balance sheet.

As of 31 December 2018, current financial liabilities fell to EUR 11,435 thousand (prior year: EUR 12,046 thousand). They mainly comprised liabilities from gaming operations of EUR 11,197 thousand (prior year: EUR 9,532 thousand), which were influenced by increased billings. This item, which is expected to increase further as billings grow, comprises obligations from invoicing our customers and the state lottery companies. The item also includes small winnings which customers leave on their gaming accounts and use later to pay for tickets.

Interest-bearing loans include current payments, due within one year, for the IT equipment at our new data centres (hire purchase agreements: EUR 193 thousand; prior year: EUR 283 thousand). The loan of originally EUR 2,000 thousand granted by the Günther Group in September 2016, which had initially increased to EUR 3,500 thousand after drawing the contractually agreed second tranche in May 2018, was prematurely redeemed in four partial amounts – in the months August, September, October and November 2018 – due to the positive liquidity situation (prior year: EUR 2,000 thousand).

Other current liabilities mainly comprise amounts due in connection with taxes and social security.

Investment analysis

In the reporting period, we invested a total of EUR 973 thousand (prior year: EUR 1,339 thousand), mainly in software and hardware needed for operations, as well as in our apps, our IT data centre, our workplace equipment and our business intelligence system.

Liquidity analysis

KEY CASH FLOW ITEMS

in EUR thousand	**2018**	2017
Cash flow from operating activities	3,271	2,125
Cash flow from investing activities	-973	-1,339
thereof financial investments	–	5
thereof operative investments	-973	-1,344
Cash flow from financing activities	-2,498	-2,692
Change in available funds	**-199**	**-1,907**
Available funds at the beginning of the period	8,271	10,178
Available funds at the end of the period	**8,072**	**8,271**

Due to the improvement in earnings in fiscal year 2018, cash flow from operating activities rose to EUR 3,271 thousand (prior year: EUR 2,125 thousand).

Cash flow from investing activities amounted to EUR 973 thousand (prior year: EUR 1,339 thousand), as we invested in the expansion of our operating business – as in fiscal year 2017.

Cash flow from financing activities of EUR -2,498 thousand (prior year: EUR -2,692 thousand) includes both the hire purchase contracts concluded and the fully redeemed loan of the Günther Group.

As of 31 December 2018, current financial assets comprised the following items:

CURRENT FINANCIAL ASSETS

in EUR thousand	**31.12.2018**	31.12.2017 adjusted
Receivables from gaming operations	6,714	4,450
Deposits	1,016	1,011
Other	242	6
Total	**7,970**	**5,466**

The items »Receivables from gaming operations« (2018: EUR 6,714 thousand; prior year: EUR 4,450 thousand), »Deposits« (2018: EUR 1,016 thousand; prior year: EUR 1,011 thousand) and »Others« (2018: EUR 242 thousand; prior year: EUR 6 thousand) which were disclosed in 2017 under »Other assets and prepaid expenses« are now disclosed under »Current financial assets« in order to achieve a separation of financial and non-financial assets in the balance sheet.

Asset position

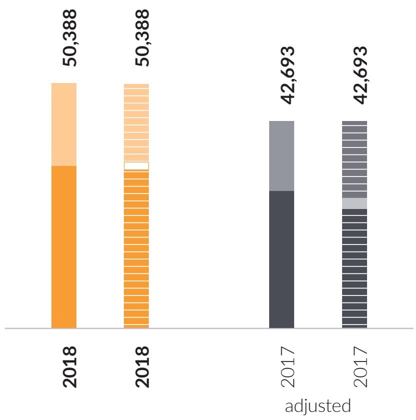
Compared to 31 December 2017, total assets decreased by EUR 7,695 thousand to EUR 50,388 thousand as of 31 December 2018 – due mainly to the increase in non-current assets.

Current assets comprised cash and cash equivalents (EUR 8,072 thousand; prior year: EUR 8,271 thousand), current financial assets (EUR 7,970 thousand; prior year: EUR 5,466 thousand), trade receivables (EUR 384 thousand; prior year: EUR 178 thousand) and other current assets (EUR 667 thousand; prior year: EUR 532 thousand).

Non-current assets were dominated by our goodwill (EUR 18,850 thousand; prior year: EUR 18,850 thousand) and net deferred tax assets (EUR 12,464 thousand; prior year: EUR 7,239 thousand).

BALANCE SHEET STRUCTURE

in EUR thousand



	2018	2018	2017 adjusted	2017 adjusted	
Total current assets	17,094	16,324	14,448	15,823	Total current liabilities
Total non-current assets	33,294	1,738	28,245	2,242	Total non-current liabilities
		32,326		24,629	Total equity

Significance of off-balance-sheet financial instruments for the financial and asset position

There are off-balance-sheet future obligations from agreements for services, cooperation, insurance and licences, as well as for offices and technical equipment totalling EUR 6,644 thousand (prior year: EUR 7,321 thousand) for beyond the next five years. Further information is provided in section 23 of the notes to the consolidated financial statements.

Accounting judgements

We have not made any amended accounting judgements with a significant impact on the asset position of Lotto24 AG.

Overall assessment of the economic position of Lotto24 AG

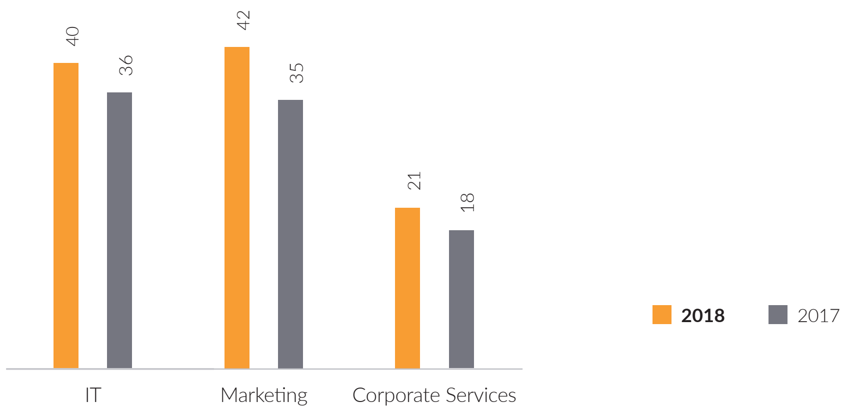
Lotto24 is well positioned to participate further in the growth of Germany's online lottery market: after already establishing ourselves as market leader in 2014, we continued to grow steadily and have extended our leading position – thanks in part to the outstanding jackpot trend in fiscal year 2018.

Employees

At the end of the reporting period on 31 December 2018, Lotto24 AG had 103 employees (full-time equivalents, excluding the two Executive Board members and student helpers, prior year: 89). 41% of employees (prior year: 39%) and 8 student helpers (prior year: 7) were employed in Marketing (including customer service) and 39% (prior year: 40%) in the IT department.

Staff fluctuation fell to 9% in the reporting period (prior year: 14%).

HEADCOUNT BY DEPARTMENT[1)]



[1)] *Rounded to full-time equivalents per department*

NUMBER OF EMPLOYEES[1)]

	31.12.2018	31.12.2017
Lotto24 total	108	94
of which women	37	30
of which part-time staff	20	18
Average age of staff in years	38	37
Staff fluctuation in % (annual average)	9	14
Employees (full-time equivalent)	103	89

[1)] *At end of reporting period; excluding Executive Board members, students and temps*

Positive working environment

Flat hierarchies, short decision paths and transparent communication are all lived on a daily basis at our Company and we attach great importance to staff taking responsibility themselves and working in teams.

We offer our employees the opportunity to plan their work time autonomously and flexibly – in consultation with their respective team and manager – with the aim of reconciling professional commitments with their personal lives. We therefore provide flexible working time models and the ability to work from home.

Targeted support and development

With the aid of appraisal interviews, a defined competency model, mutual feedback and the identification of development areas, we strive to steadily enhance the expertise of our team. We reward the individual performance of our employees and let them share in the Company's success. We also support their development to ensure success in their respective areas. Staff satisfaction is measured by our annual staff surveys which we use to derive measures for a continuous improvement of the working environment.

High level of staff satisfaction

In October 2018, we conducted our sixth staff survey which – as in the previous years – once again confirmed the high level of satisfaction among our employees. The main topics were Company objectives, management, strategy, communication and the employee's own role at the Company. Despite our continued growth, staff still identify strongly with the Company: 99% would recommend Lotto24 AG to others as an employer (prior year: 95%). In particular, they appreciate the open communication and transparency, as well as our solution-oriented approach. Our aim is to maintain this healthy working environment in future, as we regard our strong and highly motivated team as the basis for our further success.

Top-class employer ratings

In competition for the best specialists and executives, we employ measures which will enhance our appeal among potential job candidates. We therefore continue to refine and expand our employer profile on the platforms kununu and Xing, and have revamped the career section of our website. On kununu – the largest German-language platform for employer ratings – we currently have a very impressive 4.60 out of 5.00 possible points and a recommendation rate of 100% (as of: 21 March 2019).

Numerous awards for Lotto24

We are proud to report that Lotto24 received numerous awards in fiscal year 2018: for example, in the survey »TOP Employers of 2018 – Germany's most family-friendly companies« conducted by the media brand »freundin« together with the employer rating platform kununu and published on 17 October 2018, we came 17th out of 100 companies and were thus praised once again as one of Germany's most family-friendly employers. This was also confirmed by the Chamber of Crafts of the City of Hamburg, which awarded the »Hamburg Family Seal« to us on 19 November 2018. In issue 04/2018, the German magazine FOCUS also comes to the conclusion that Lotto24 is one of the »TOP Mid-Sized Employers« – coming 3rd for example in the Internet company rankings.

Corporate Social Responsibility

EUR 122 million for good causes

We attach great importance to Corporate Social Responsibility and make a major contribution to society: since lotteries have been held under state supervision, money has flowed into numerous socially relevant projects. Around 40% of the stakes received by the state lottery companies benefited society as a whole over the past few years in the form of taxes and duties, a further 50% is returned to players in the form of prizes and about 10% is spent on marketing and administration.

According to DLTB figures, over EUR 2.9 billion was transferred to the state budgets or beneficiaries in the form of taxes and duties in 2018 (prior year: almost EUR 2.8 billion). This corresponds to more than EUR 8 million per day for good causes throughout Germany – money which is absolutely vital for the funding of numerous projects in the field of welfare, sport and culture, as well as landmark and environmental protection.

With our brokerage activities in 2018, we too therefore provided EUR 122 million (prior year: EUR 84 million) for important social and community projects.

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

We have also been offering our customers the »Deutsche Weihnachtslotterie« since 2017: this social lottery operated by the German »Navidad Foundation« and based on the concept of the Spanish Christmas lottery »El Gordo« is a ticket number lottery whose proceeds are used to support good causes in the field of children and youth support, as well as health and sport.

RELATED PARTY DISCLOSURES AND DEPENDENT COMPANY REPORT ACCORDING TO SECTION 312 AKTG

There is a dependent relationship between Lotto24 AG and Othello Vier Beteiligungs GmbH & Co. KG according to section 17 (1) German Stock Corporation Act (AktG). The top-level, controlling parent company according to AktG of Othello Vier Beteiligungs GmbH & Co. KG is Mr Oliver Jaster, Germany. There is no control or profit transfer agreement between Lotto24 AG and Othello Vier Beteiligungs GmbH & Co. KG. Pursuant to section 312 AktG, the Executive Board of Lotto24 AG has therefore drawn up a Dependent Company Report for the past fiscal year.

In accordance with section 312 (3) AktG, the Executive Board made the following statement at the end of the Dependent Company Report for the reporting period: »According to the circumstances known to us at the date on which legal transactions were undertaken or measures were taken or omitted, Lotto24 AG received adequate consideration and was not disadvantaged by any measures taken or omitted.«

SUBSEQUENT EVENTS

Takeover offer of ZEAL Network SE

On 19 November 2018, ZEAL Network SE, London, published a voluntary public takeover offer to all shareholders of Lotto24 AG. The offer contained the exchange of one new ZEAL share with a nominal value of EUR 1.00 as consideration for approximately 1.604 tendered shares of Lotto24. The exchange ratio thus corresponds to the ratio of the volume-weighted average prices of the shares of both companies over the three months prior to 19 November 2018.

Also on 19 November 2018, major shareholders in Lotto24 and ZEAL – who together hold around 65% of the shares and voting rights in Lotto24 – entered into irrevocable undertakings with ZEAL to accept the takeover offer.

The German Federal Cartel Office (Bundeskartellamt) cleared the combination on 18 December 2018.

Following several weeks of intensive negotiations, we also concluded a Business Combination Agreement (BCA) with ZEAL on 24 December 2018. This BCA sets out the framework for the transaction and the common objectives. In particular, it contains agreements on the future business cooperation after completion of the exchange offer, the future composition of the Executive Board of ZEAL and the Executive Board of Lotto24, as well as cooperation with regard to the implementation of the completion conditions under gambling law.

At an extraordinary general meeting of ZEAL on 18 January 2019, the resolutions concerning the takeover offer for Lotto24 shareholders were also adopted.

ZEAL published the statutory offer document on 31 January 2019.

On 8 February 2019, we received a supplement to our brokerage permit which allows us to also broker tickets to the state lottery companies via the domains Tipp24.de and Tipp24.com in future.

Finally, we issued our joint reasoned opinion of the Executive Board and Supervisory Board on 12 February 2019: it states that we regard the type and amount of the takeover consideration offered by ZEAL as adequate within the meaning of section 31 (1) of the German Securities Acquisition and Takeover Act (»Wertpapiererwerbs- und Übernahmegesetz – WpÜG«) and are of the opinion that the cooperation between Lotto24 and ZEAL offers benefits and opportunities for both companies. Against this background, we recommended that all Lotto24 shareholders accept the exchange offer. We must point out, however, that certain aspects may impact the value development of the Lotto24 shares on the one hand and the ZEAL shares on the other, and thus may alter the assessment of the adequacy of the offer consideration in a retrospective view. These aspects include, in particular, the agreements to be concluded between Lotto24 and ZEAL, whose terms and conditions still have to be agreed, a possible additional burden of ZEAL from value added tax payments, and various risks during the implementation of the cooperation. The above aspects and further aspects with a potential impact on value are described in detail in the joint reasoned opinion.

»Hamburg's Best Employers« accolade once again in 2019

On 17 January 2019, we were once again among the winners of the »Hamburg's Best Employers« competition with a top score of five stars. We had already received this special accolade for our excellent HR work in the participating years 2015 and 2017. The event is held annually by Hamburg's Helmut Schmidt University, »Roos Consult GmbH & Co. KG«, »Rock Antenne« and local newspaper »Hamburger Abendblatt«.

Advertising permit prolonged

On 27 February 2019, the German authority responsible for advertising standards, the District Government of Dusseldorf, prolonged our advertising permit for the third time. It applies until the GlüStV expires on 30 June 2021. After receiving the extension, we continue to be authorised to advertise the online marketing of state lotteries throughout Germany via the Internet and TV, thus driving the further expansion of Lotto24's customer base.

Dr. Felix Menden remains consultant of Lotto24

In the course of the takeover offer of ZEAL Dr. Felix Menden will make use of his contractually agreed special termination right and will not assume his position as member of the Executive Board of Lotto24 AG. He had originally been scheduled to take office on 1 December 2018 and this was initially postponed to 1 May 2019 due to the takeover offer published by ZEAL on 19 November 2018.

However, Dr. Menden will continue to be available to us as a consultant in the course of the business combination and will in particular accompany the future IT strategy, the implementation of the merger of the IT platforms, the restructuring of the IT organisation and other issues in connection with the IT systems.

German Financial Reporting Enforcement Panel (DPR) certifies error-free accounting for fiscal year 2017

As part of the audit announced on 26 September 2018 pursuant to Section 342b (2) sentence 3 no. 3 German GAAP (HGB) (spot check) of our annual financial statements and management report as of 31 December 2017, DPR informed us on 20 March 2019 that the relevant chamber of the Enforcement Panel had detected no errors in the accounts for fiscal year 2017. Among other things, the audit focused on the understanding of the business model and deferred tax assets on tax loss carryforwards.

REPORT ON EXPECTED DEVELOPMENTS AND ASSOCIATED MATERIAL OPPORTUNITIES AND RISKS

Risk report

Lotto24 is a young company which has only been in business since 2012 and competes in the dynamic and growing field of online brokerage of state-licensed lottery products.

Our business model is influenced by a number of factors – these include the legal and macro-economic conditions, the retention of brokerage and advertising permits, and cooperations with our business partners or other contractual relationships. On this basis, we make assumptions about our development and profitability, the level of billings and revenues, cost items, staffing, funding and key balance sheet items which may prove to be false or incomplete. There is no guarantee that Lotto24 will be able to succeed in this market in the long term. In particular, our continued growth depends on whether, and to what extent, we are able to gain new customers for Lotto24's products, to expand our current offerings, to add further products to the range and to establish new sales channels.

In the worst case, the business model may prove to be unprofitable or unfeasible. This may lead to impairment especially of capitalised non-current assets, as well as to other significant negative effects on the financial position and performance of Lotto24.

Risk and compliance management

The Executive Board of Lotto24 AG has expanded the existing risk management system by including an integrated compliance management system. To this end, we carefully monitor our market and competitive environment while analysing the identified risks and compliance fields in the course of regular risk workshops. The insights this provides are used to swiftly introduce measures which will ensure the long-term and sustainable success of the Company and prevent any infringements of compliance regulations.

Lotto24 AG is exposed to the typical sector and market risks associated with the online lottery sector. We define risks as being those events or developments which may have a negative impact on the Company or the attainment of our corporate objectives. In order to counter such risks, we have established a modern and comprehensive risk management system.

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

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

We are convinced that our early warning and risk management system is well suited to quickly recognising and dealing with dangers for Lotto24 AG resulting from possible risks. The risk early recognition system has been formally documented and is regularly monitored and adapted. Should one or more of the following risks occur, it may materially impact our business and have significant adverse effects on the financial position and performance of Lotto24 AG.

Lotto24's compliance management system consists of a large number of in-house measures and processes. It serves our objective of acting in accordance with ethical principles and abiding by all applicable laws, internal regulations and voluntary commitments. In addition to the general compliance fields, we pay particular attention to complying with the special compliance fields of gaming legislation, data privacy, IT security, competition, corruption and general non-discrimination.

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

Lotto24 has set up a whistleblower mailbox which employees or external whistleblowers can use to report regulation violations to Lotto24. The report can also be made anonymously.

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

Market and sector risks

Stronger competition from secondary lottery providers

Over the past few years, providers of secondary lotteries without brokerage or advertising permits have significantly increased their market presence in Germany via high-reach advertising channels, including TV commercials. In 2018, the relevant supervisory authorities succeeded for the first time in enforcing the current advertising bans against a large secondary lottery provider and a TV station. Since this time, the previous extensive advertising campaigns, especially at prime time on high-reach TV channels, have declined significantly. However, this does not alter the fact that the respective brands had already greatly increased their awareness and continue to benefit from this effect. Consumers are still unable to distinguish between providers with and without permits.

It remains to be seen to what extent the short-term enforcement success achieved by the regulatory bodies will prove effective in the medium to long term. So far, the relevant authorities have not taken sufficient action to prevent such unauthorised advertising. The responsibilities divided between the various German states as part of the country's federal system and the difficulty of implementing state regulatory measures abroad may continue to distort competition between the strictly regulated providers with permits and those secondary lottery providers not allowed in Germany to the detriment of Lotto24 AG.

In principle, however, the change in ZEAL's business model as part of the takeover of Lotto24 means that the competition from foreign secondary lottery providers will become weaker. The medium-term success of the secondary lottery business model has therefore been fundamentally challenged and its further growth will be hampered. It will become increasingly difficult for the remaining providers to enter into successful advertising collaborations in order to ensure further growth.

Rejection of gaming advertising by sales partners

Strategic marketing partners like Google or Apple may reject advertising for games of chance. There is therefore a risk that Lotto24's advertising may not be accepted by these marketing companies in future, which may result in a significant reduction of revenues and new customer figures.

Absence of unusually high lottery winnings

Jackpots occur by chance due to certain conditions during lottery draws. It cannot be excluded, therefore, that no such high lottery winnings are offered over a longer period of time. Such longer periods of time without (sizeable) jackpot draws may in particular lead to lower revenues and new customer figures due to a reduced interest to participate in lotteries.

Legal risks from the regulatory development in Germany

Future development of legal situation in Germany remains uncertain

We have already reported on the general legal conditions and the resulting possible uncertainties in the section »Legal conditions«. As a result of the legal conditions, which still remain uncertain in significant areas, the following risks may endanger the Company's future survival in general:

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

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

Stricter age verification regulations

Lotto24 uses an age verification process which it developed itself and which has been certified by »Freiwillige Selbstkontrolle Multimedia-Diensteanbieter e.V.« (FSM). FSM is an institution for youth protection issues recognised by the German Commission for Protection of Minors in the Media (»Kommission für Jugend- und Medienschutz«, KJM). In its inspection report, it concludes that the age verification process used by Lotto24 ensures the protection of minors – especially preventing young people from taking part in Lotto24 offerings – and thus meets the legal requirements. Due to the uncertain legal situation, especially in this field, it cannot be excluded that certain authorities may demand additional procedures for our age verification. Making the age verification process as simple as possible for new customers is a key factor for sales – additional requirements may therefore lead to fewer new registrations or a loss of customers.

Strict enforcement of advertising restrictions

Due to the uncertainty of the auxiliary provisions, it cannot be excluded that the relevant authorities may regard the advertising measures we take as being incompatible with our advertising permit and the requirements of the GlüStV. Corresponding official measures may lead to a restriction of our offerings or our advertising measures.

Moreover, those authorities responsible for advertising standards may enforce the existing advertising restrictions more strictly in future due to a sports betting ruling of the Federal Administrative Court (8 C 17/12) on 20 June 2013, or the recently published verdict of the Administrative Court of Munich of 25 July 2017 (M 16 K 12/1915): both rulings call for the continued validity of a sports betting monopoly – especially of the state-owned companies – and low-key advertising in line with the monopoly's target of preventing addiction. Expansive advertising of state gaming products is incompatible with this aim. Although the ruling in a sports betting case was passed on the basis of the old State Treaty, the regulatory authorities have in part expressed the opinion that the principles of this jurisdiction should be transferred to the current GlüStV. The authorities may therefore also apply stricter enforcement to advertising for lotteries. We consider both the transfer of the court's reasoning to harmless lottery brokerage and to the current legal situation and the applicable legal basis for advertising restrictions as unlawful. However, it is possible that the District Government of Dusseldorf, which is responsible for advertising supervision, may restrict advertising possibilities further in future.

Operating risks

Continuation of existing cooperation agreements

We offer major online portals our IT and marketing services for the operation of online lottery services (B2B and business services). In 2012, we already recruited two major partners as multipliers in WEB.de and GMX.net. It cannot be excluded that these existing agreements are terminated prematurely or not prolonged on expiry.

Sufficient liquidity

We generally assume that we do not require further funding. However, should exceptional circumstances or market opportunities arise which cannot be financed via available funds, additional funding via corresponding financing measures might be required.

Shortage of skilled staff

In the course of our IT insourcing, we set up our own IT department and recruited skilled employees to fill most of the vacant positions. Recently, however, the shortage of skilled IT staff has grown more acute and this may mean that vacant or new positions – such as in the development department – cannot be filled at the desired time or on the desired terms, despite the expansion of personnel marketing activities.

Risks from gaming operations

- *Dependency on complex IT systems:* We are dependent on the use of automated processes for handling gaming agreements. Despite our extensive security provisions currently in place, the processing of the gaming agreements may be materially impacted by breakdowns of or disruptions to the IT systems. This may result from the destruction of hardware, system crashes, software problems, virus attacks, and the intrusion of unauthorised persons on the system or similar disruptions, and particularly the automated generation of mass mailing requests on a server via the Internet with the aim of significantly limiting its availability by overloading (denial of service attacks). Any adverse effect could, depending on its extent, result in damage to our reputation and financial losses.
- *Data abuse by unauthorised persons:* In the course of the registration process, our customers provide us with their personal details which are stored electronically and can be viewed by the customer on our website via the respective player account section. We have taken exhaustive steps to secure the data we store, which are regularly checked by independent security experts and continually adapted to state-of-the-art requirements. Despite these high security precautions, it cannot be fully excluded that unauthorised persons illegally gain access to our customer database or the customer database of our partners. This may lead to loss of revenues, damage claim obligations and considerable damage to our assets.
- *Cooperation with external service providers:* For the processing of our business, we depend on cooperation with external service providers who have the specialist know-how and technologies. This applies to data and oral communication, procurement, installation, ongoing development, updating and maintaining hardware and software, data centre services, payment processing, text messaging and emailing. There is a possibility that one or more of the external service providers we use does not render the services, or not on time or not without errors. It is therefore possible that we may be unable to provide our own services on time or without error due to errors or oversights of the external service providers we have commissioned. This may lead to loss of income, damage claim obligations and considerable damage to our reputation.

Implementation risks in connection with the takeover by ZEAL Network SE

The combining and restructuring of companies involves fundamental risks which can have a negative impact on the financial position and performance. The announcement of redundancies and restructuring in connection with the takeover may lead to an increase in employee turnover, the loss of key personnel and a reduction in the performance of Lotto24 AG employees. The employer branding could deteriorate, which could lead to negative consequences for future recruiting processes. As the cooperation requires resources of Lotto24 AG to be used for joint projects (e.g. to leverage IT-related synergies), these resources may not be available for projects planned by Lotto24 AG and thus diminish the earnings of Lotto24 AG. Lotto24 AG will require external consultants (e.g. lawyers, auditors, financial advisors) to ensure the correct execution of the takeover and the cooperation, as well as for the large number of contracts to be negotiated. Lotto24 AG will therefore incur additional costs. In addition, restructuring may proceed more slowly with the result that such effects last longer and synergies may occur later or not to the extent planned.

Assessment of the risk situation

We believe that the probability of the above mentioned risks occurring varies and regard the overall risk position as moderate. We regard the likelihood of risks that could jeopardise the continued existence of the Company as small. Moreover, in such cases we would fully exploit all possibilities of legal protection. We are not aware of any other risks which might endanger the Company's continued existence.

Features of the accounting-related internal control and risk management system

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

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

By means of defined organisational, control and monitoring structures, the accounting-related ICS of Lotto24 AG ensures the complete recording of company-related matters and their proper presentation in the separate financial statements. The principles, procedures and measures introduced for this purpose are regularly reviewed and continuously developed.

Lotto24 AG prepares its annual financial statements in accordance with German accounting standards and its separate financial statements in accordance with the requirements of IFRS, as adopted by the EU. Changes to the relevant legal regulations are constantly monitored and examined for any adjustments that might be required.

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

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

The external auditors conduct a process-independent audit. In accordance with section 107 (3) sentence 2 AktG, the Supervisory Board regularly commissions the external auditors to conduct additional audit activities.

Opportunity report

Increasing digitisation of media usage

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

Unusually high lottery winnings

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

Opening of »Google Play Store«

According to Statista, the Android operating system had a market share of around 66% for mobile Internet use in Germany in November 2017. Google's smartphone operating system is thus the most widely used in Germany. It automatically includes access to the Google Play Store, which currently offers around 3.4 million apps (Statista, October 2017). Android users are used to searching for online services of all kinds in the Play Store and then installing such apps on their smartphones. Unfortunately, Google has banned all e-commerce apps from gaming companies worldwide since 2013. However, this ban was lifted for the first markets (UK, France) in 2017. An opening of the German Play Store is therefore possible. With reference to our official permit for lottery brokerage, we already applied to Google for the release of our fully featured app in 2015. A Google Play Store release might provide ideal support for the ongoing trend towards greater mobile use of Lotto24 and thus accelerate our growth. Moreover, the app helps increase the rate of returning customers, thus raising revenue per customer and the profitability of our marketing investments.

Synergy effects from combination of ZEAL Network SE and Lotto24 AG

Despite the implementation risks, the strategic combination of the two companies may lead to greater synergy effects in the medium term than currently anticipated. In particular, the combination may be completed more quickly and cost savings may occur earlier than expected. Moreover, the future cooperation – especially in the areas of product development and IT – may also have positive effects on the product portfolio.

In addition, the successful completion of the exchange offer would result in a digital lottery group with more than 5 million customers worldwide at present, with combined billings of currently around EUR 500 million (based on the respective financial statements of the two companies for the fiscal year 2017) and a broad international presence, which may lead both to increased market power and higher entry barriers for additional competitors.

Forecast report

Lotto24 is the leading German provider of state-licensed lotteries via the Internet. 2018 was an exceptionally good year for us: we enjoyed strong growth and not only passed the 2 million customer mark, but also continued to expand our product portfolio. As a result, we strengthened our position as the leader in Germany's growing market for online lotteries and look forward to continuing Lotto24's success story in 2019.

Expected earnings position

In 2019, we plan to extend our market leadership as an online provider of state-licensed lotteries. Subject to any guidance adjustments deemed necessary in the course of 2019 due to ZEAL's takeover offer, we expect stable (stand-alone) figures for billings, revenues and gross margin for Lotto24 AG in comparison to the previous year due to the exceptionally strong jackpot trend in 2018. We also anticipate a fall in the number of new customers and a rise in CPL. Depending on external conditions, especially the jackpot trend, and marketing investments to attract new customers, our EBIT will continue to be well above the break-even point – without consideration of any transaction costs incurred during the takeover.

	2019	2018
	Forecast	Actual
Billings	Stable at prior-year level	EUR 321.8 million
Revenues	Stable at prior-year level	EUR 38.3 million
Gross margin	Stable at prior-year level	11.90%
EBIT	Well above break-even	EUR 2.6 million
CPL	Higher than previous year	EUR 25.88
New customers	Falling number of new customers	596 thousand

Expected financial position

On the basis of stable billings and falling marketing investments, we expect an overall decrease in use of funds for fiscal year 2019 – without consideration of any transaction costs incurred during the takeover. On 31 December 2018, we held cash and other financial assets totalling EUR 8,072 thousand which we will use in part for marketing activities to attract new customers. Moreover, we will continue to broaden our product portfolio with the brokerage of additional lotteries.

DISCLOSURES PURSUANT TO TAKEOVERS

The following disclosures are in compliance with section 289a German GAAP (HGB):

Composition of subscribed capital

As of 31 December 2018, the subscribed capital of Lotto24 AG amounted to EUR 24,154,890, divided into 24,154,890 no-par value registered shares. The shares are fully paid. Each share entitles the owner to one vote and is decisive for the respective share of profit – with the possible exception of any new shares with no dividend rights. Treasury shares held by the Company on the day of the Annual General Meeting have no voting nor dividend entitlements. As of 31 December 2018, there were no treasury shares.

Restrictions concerning voting rights or the transfer of shares

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

Direct or indirect shareholdings which exceed 10% of voting rights

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

Name, location	Shareholding
Günther Consulting GmbH, Hamburg, Germany	32.22% (attributed)
Günther GmbH, Bamberg, Germany	33.29% (attributed)
Günther Holding GmbH, Hamburg, Germany	33.29% (attributed)
Günther Holding Immobilien GmbH & Co. KG, Hamburg, Germany	32.22% (attributed)
Günther Holding Immobilien Management GmbH, Hamburg, Germany	32.22% (attributed)
Jaster, Oliver, Germany	33.29% (attributed)
Othello Vier Beteiligungs GmbH & Co. KG, Hamburg, Germany	32.22% (directly)
Kenneth Chan (via UBS)	20.06% (attributed)

Owners of shares with special rights granting powers of control

Shares with special rights granting powers of control have not been issued.

Type of voting rights control when employees hold shares and do not directly exercise their control rights

Employees who hold shares of Lotto24 AG exercise their control rights in the same way as other shareholders in accordance with the statutory provisions and the Articles.

Legal regulations and provisions of the Articles regarding the appointment and dismissal of Executive Board members and amendments to the Articles

The members of the Executive Board of Lotto24 AG are appointed by the Supervisory Board for a period of no more than five years. Members may be re-appointed for further periods of no more than five years (section 5 (2) of the Articles). Members of the Executive Board are appointed with a simple majority of the votes cast by the Supervisory Board. In the event of a tie, the Chairman has two votes in a second vote on the same matter if a tie also results (section 11 (6) of the Articles). If a necessary member of the Supervisory Board is missing, the court may appoint a member in urgent cases and on application of a person involved in accordance with section 85 AktG. The Executive Board consists of one or more persons pursuant to section 5 (1) of the Articles. Otherwise, the Supervisory Board determines the number of Executive Board members and appoints a Chairman of the Executive Board pursuant to section 84 (2) AktG.

The scope of activities which the Company may perform is defined in section 2 of the Articles. According to section 179 AktG, the Articles can only be amended with a resolution of the Annual General Meeting. Unless otherwise prescribed by law, resolutions of the Annual General Meeting are adopted by a simple majority of votes cast (pursuant to section 133 AktG, section 18 (1) of the Articles) and where necessary by a simple majority of the share capital represented. In accordance with section 179 (2) AktG, a majority of 75% of the share capital represented is required to change the purpose of the Company. The Supervisory Board is authorised to resolve amendments to the Articles of Association that only concern the formal wording (section 14 of the Articles). Pursuant to section 181 (3) AktG, amendments to the Articles become effective when entered in the Commercial Register.

Powers of the Executive Board to issue or buy back shares

With the approval of the Supervisory Board, the Executive Board is authorised to increase share capital in the period up to 11 May 2020 by up to a total of EUR 2,195,899 by issuing on one or more occasions, in whole or in partial amounts, new no-par value shares for cash or contributions in kind (Authorised Capital 2015). Subscription rights are to be granted to shareholders. Further details on Authorised Capital are provided in section 22 of the notes to the consolidated financial statements or in section 4 of the Company's Articles.

The Executive Board can only be authorised to purchase treasury shares by the Annual General Meeting. This has not been the case so far.

Significant agreements that are conditional on a change of control following a takeover bid

No significant agreements that are conditional on a change of control following a takeover bid have been concluded.

Compensation arrangements in the event of a takeover bid

No compensation arrangements with members of the Executive Board or employees have been made in the event of a takeover bid.

CORPORATE GOVERNANCE DECLARATION IN ACCORDANCE WITH SECTION 289F HGB

The Corporate Governance Declaration pursuant to section 289f HGB has been made available to the public on the Company's website Lotto24-ag.de. Further information on corporate governance practices and the definition of targets for the proportion of women on the Supervisory Board, the Executive Board and in senior management positions, as well as the Declaration of Conformity pursuant to section 161 AktG are included in the Corporate Governance Report.

REMUNERATION REPORT

Executive Board remuneration

Fixed salary plus variable components

Executive Board remuneration consists of a fixed and a variable component. Moreover, the Supervisory Board may resolve to grant the Executive Board members an additional voluntary bonus for special services to the Company and in the case of corresponding economic success of the Company. The variable component is based on individual and strategic targets, such as Company growth. Both the amount and structure of Executive Board remuneration are continually monitored by the Supervisory Board and are agreed and updated with each member of the Executive Board. In addition, the members of the Executive Board have been granted a long-term, share-based remuneration programme (phantom shares with cash compensation), which had the following structure in the period up to 31 December 2016: the imputed number of shares is issued in annual tranches in the middle of the calendar year and vested over the twelve following months pro rata temporis. The number of shares is calculated by dividing a nominal remuneration claim in euro – initial value EUR 410 thousand for the Executive Board as a whole (prior year: EUR 330 thousand) – by the average Lotto24 share price (Xetra or a functionally comparable successor system) for the past 90 trading days. Claims to receive payment accrue after a blocking period of four years.

After implementing the recommendations of an external remuneration consultant, half of the long-term share-based remuneration programme (phantom shares with cash compensation) was converted to a variable remuneration component with effect from 1 January 2017 (EUR 205 thousand for the Executive Board as a whole), whereby the tranche period for the new component was shortened from four to three years.

The underlying KPIs for the new compensation component (revenues and EBIT) reflect long-term growth and profitability targets. Relative target achievement is measured at the end of the tranche by adding the equally weighted KPIs with the actual total values achieved over a period of three years and comparing them with the respective three-year target values. Remuneration claims arise after a three-year blocking period. The target attainment range is between 0% and 200%, whereby the maximum is thus below the cap of the phantom shares (300%). The Supervisory Board defines the tranche-related floors and caps.

Executive Board remuneration in 2018 was as follows:

BENEFITS GRANTED

	Petra von Strombeck, CEO as of 01.07.2012			
in EUR thousand	**2018**	**2018 (min.) variable**	**2018 (max.) variable**	2017
Fixed remuneration	300	–	–	300
Benefits	–	–	–	–
Total (fixed)	**300**	**–**	**–**	**300**
One-year variable remuneration	340	–	400	132
Multi-year variable remuneration	345	–	500	227
Phantom shares 2014–2018 (4 years)[1)]	–	–	–	–
Phantom shares 2015–2019 (4 years)[1)]	–	–	–	–
Phantom shares 2016–2020 (4 years)[1)]	–	–	–	90
Phantom shares 2017–2021 (4 years)[1)]	90	–	150	54
Phantom shares 2018–2022 (4 years)[1)]	56	–	150	–
KPI-based remuneration (3 years)[2)]	–	–	–	–
Revenues 2017–2020 (3 years)[2)]	21	–	–	39
EBIT 2017–2020 (3 years)[2)]	-21	–	–	44
Revenues 2018–2021 (3 years)[2)]	99	–	100	–
EBIT 2018–2021 (3 years)[2)]	100	–	100	–
Total (variable)	**685**	**–**	**900**	**359**
Remuneration expense	–	–	–	–
Total remuneration	**985**	**–**	**900**	**659**

[1)] *Fair value of phantom shares granted monthly, depending on the current share price*
The nominal values of the granted phantom shares amount to EUR 50 thousand in each case
[2)] *Fair value of KPI-based remuneration granted monthly*
The nominal values of the granted KPI-based remuneration amount to EUR 50 thousand in each case

BENEFITS GRANTED

in EUR thousand	Magnus von Zitzewitz, Member of Executive Board as of 01.07.2012 2018	2018 (min.) variable	2018 (max.) variable	2017
Fixed remuneration	200	–	–	200
Benefits	–	–	–	–
Total (fixed)	**200**	**–**	**–**	**200**
One-year variable remuneration	215	–	260	126
Multi-year variable remuneration	223	–	325	146
Phantom shares 2014–2018 (4 years)[1]	–	–	–	–
Phantom shares 2015–2019 (4 years)[1]	–	–	–	–
Phantom shares 2016–2020 (4 years)[1]	–	–	–	58
Phantom shares 2017–2021 (4 years)[1]	58	–	97	35
Phantom shares 2018–2022 (4 years)[1]	36	–	98	–
KPI-based remuneration (3 years)[2]	–	–	–	–
Revenues 2017–2020 (3 years)[2]	13	–	–	25
EBIT 2017–2020 (3 years)[2]	-13	–	–	28
Revenues 2018–2021 (3 years)[2]	64	–	65	–
EBIT 2018–2021 (3 years)[2]	65	–	65	–
Total (variable)	**438**	**–**	**585**	**272**
Remuneration expense	–	–	–	–
Total remuneration	**638**	**–**	**585**	**472**

[1] Fair value of phantom shares granted monthly, depending on the current share price
The nominal values of the granted phantom shares amount to EUR 32.5 thousand in each case
[2] Fair value of KPI-based remuneration granted monthly
The nominal values of the granted KPI-based remuneration amount to EUR 32.5 thousand in each case

BENEFITS GRANTED

in EUR thousand	Kai Hannemann, Member of Executive Board from 01.07.2016 to 31.01.2018 **2018**	**2018 (min.) variable**	**2018 (max.) variable**	2017
Fixed remuneration	180	–	–	180
Benefits	–	–	–	–
Total (fixed)	**180**	**–**	**–**	**180**
One-year variable remuneration	–	–	–	112
Multi-year variable remuneration	–	–	–	90
Total (variable)	**–**	**–**	**–**	**202**
Remuneration expense	–	–	–	–
Total remuneration	**180**	**–**	**–**	**382**

The disclosures of individual maximum values for multi-year variable compensation indicate the possible maximum value on the grant date. The actual value of the long-term share-based compensation programme (phantom shares) when benefits are received at the end of the four-year vesting or blocking period depends on the share price performance. The actual value of the long-term KPI-based compensation programme when benefits are received at the end of the three-year vesting or blocking period is calculated by comparing the actual figures with the respective three-year targets. In accordance with the recommendations of the German Corporate Governance Code (GCGC), maximum amounts are stated for the current year in the case of long-term, multi-year variable remuneration and the prior-year figures.

The fair values, and thus the future payment obligations, of phantom shares depend on the average performance of the Lotto24 share over the previous 90 days as of the valuation dates as well as on the discounting of the individual tranche-related vesting periods depending on the remaining term. The performance of the annual, nominal phantom shares granted to the Executive Board as a whole in the amount of EUR 205 thousand (prior year: EUR 205 thousand) is limited to a maximum of three times the issue price.

The remuneration claim for the long-term KPI-based component is discounted to fair value depending on the remaining term and is limited in value to EUR 205 thousand (prior year: EUR 205 thousand) and no more than the double of the issue amount.

In accordance with the adopted agreement dated 29 December 2017, Kai Hannemann, Member of the Executive Board until 31 January 2018, received basic remuneration for the year 2018 of EUR 180 thousand and multi-year variable remuneration for the year 2016 of EUR 90 thousand which became due on the date of his departure. There is no additional payment of multi-year remuneration for the years 2017 and 2018.

BENEFITS RECEIVED

in EUR thousand	Petra von Strombeck, CEO as of 01.07.2012		Magnus von Zitzewitz, Member of Executive Board as of 01.07.2012		Kai Hannemann Member of Executive Board from 01.07.2016 to 31.01.2018	
	2018	2017	**2018**	2017	**2018**	2017
Fixed remuneration	300	300	200	200	180	180
Benefits	–	–	–	–	–	–
Total (fixed)	**300**	**300**	**200**	**200**	**180**	**180**
One-year variable remuneration	132	243	126	165	112	44
Multi-year variable remuneration	600	396	390	257	90	–
Phantom shares 2013–2017 (4 years)[1)]	600	396	390	257	–	–
Phantom shares 2014–2018 (4 years)[1)]	–	–	–	–	–	–
Phantom shares 2015–2019 (4 years)[1)]	–	–	–	–	–	–
Phantom shares 2016–2020 (4 years)[1)]	–	–	–	–	–	–
Phantom shares 2017–2021 (4 years)[1)]	–	–	–	–	–	–
Phantom shares 2018–2022 (4 years)[1)]	–	–	–	–	–	–
KPI-based remuneration (3 years)[2)]	–	–	–	–	–	–
Revenues 2017–2020 (3 years)[2)]	–	–	–	–	–	–
EBIT 2017–2020 (3 years)[2)]	–	–	–	–	–	–
Revenues 2018–2021 (3 years)[2)]	–	–	–	–	–	–
EBIT 2018–2021 (3 years)[2)]	–	–	–	–	–	–
Other	–	–	–	–	–	–
Total (variable)	**732**	**639**	**516**	**422**	**202**	**44**
Remuneration expense	–	–	–	–	–	–
Total remuneration	**1,032**	**939**	**716**	**622**	**382**	**224**

Supervisory Board remuneration

In accordance with the Articles, the Supervisory Board members receive a fixed annual remuneration of EUR 25 thousand for every full financial year. The remuneration is increased to two-and-a-half times the amount for the Chairman of the Supervisory Board and to one-and-a-half times the amount for the Deputy Chairman. In order to avoid creating any incentives linked to the Company's short-term success and to strengthen the Supervisory Board's necessary independent control function, the members of the Supervisory Board do not receive any performance-related remuneration. The Supervisory Board did not form any committees in fiscal year 2018 and was remunerated as follows:

SUPERVISORY BOARD REMUNERATION

in EUR thousand	**2018**	2017
Prof. Willi Berchtold	63	63
Jens Schumann	38	38
Thorsten Hehl	25	25
Total	**125**	**125**

Hamburg, 21 March 2019

The Executive Board

05 |

FINANCIAL STATEMENTS

2018 was an exceptionally successful year for us: the number of customers leapt to 2.2 million, billings and revenues rose by 46% and 52% respectively and both EBIT and net profit were well above break-even.

INCOME STATEMENT

FROM 1 JANUARY TO 31 DECEMBER ACCORDING TO IFRS

in EUR thousand	Notes	2018	2017 adjusted
Billings		321,832	220,736
Stakes to be remitted (less revenues)		-283,543	-195,520
Revenues	5	**38,289**	**25,216**
Other operating income	6	246	38
Total performance		**38,535**	**25,254**
Personnel expenses	7	-9,048	-8,873
Impairment loss for financial assets [1)]		-599	-511
Other operating expenses [1)]	8	-25,038	-13,823
Amortisation/depreciation on intangible assets and property, plant and equipment	15, 16	-1,202	-1,035
Result from operating activities (EBIT)		**2,648**	**1,013**
Revenues from financial activities	9	–	10
Expenses from financial activities	9	-118	-303
Financial result	9	**-118**	**-293**
Net profit before taxes		**2,529**	**720**
Income taxes	10	5,168	1,813
Net profit (after taxes)		**7,697**	**2,533**
Earnings per share (undiluted and diluted, in EUR/share)		0.32	0.10
Weighted average of ordinary shares outstanding (undiluted and diluted, in shares)		24,154,890	24,154,890

[1)] Prior-year figures adjusted accordingly due to IAS 1 (82) (ba)

Net profit after taxes is attributable exclusively to the owners of Lotto24 AG, Hamburg.

STATEMENT OF COMPREHENSIVE INCOME

FROM 1 JANUARY TO 31 DECEMBER ACCORDING TO IFRS

in EUR thousand	Notes	2018	2017
Net profit for the period		**7,697**	**2,533**
Other comprehensive income to be reclassified to the income statement in subsequent periods			
Revaluation gains (+) / losses (-) from available-for-sale financial assets	11	–	9
Income tax effects	10	–	-3
Other comprehensive income after taxes	25	–	6
Total comprehensive income after taxes		**7,697**	**2,538**

Total comprehensive income after taxes is attributable to the owners of Lotto24 AG, Hamburg.

BALANCE SHEET

AS AT 31 DECEMBER ACCORDING TO IFRS

ASSETS in EUR thousand	Notes	**31.12.2018**	31.12.2017 adjusted
Current assets			
Cash and cash equivalents	11	8,072	8,271
Current financial assets [1)]	11	7,970	5,466
Trade receivables [1)]	12	384	178
Other current assets [1)]	13	667	532
Current assets, total		**17,093**	**14,448**
Non-current assets			
Goodwill	14	18,850	18,850
Intangible assets	15	572	554
Property, plant and equipment	16	1,409	1,602
Deferred tax assets	10	12,464	7,239
Non-current assets, total		**33,294**	**28,245**
ASSETS		**50,388**	**42,693**

[1)] *Prior-year figures adjusted. See explanations in the respective note*

EQUITY AND LIABILITIES in EUR thousand	Notes	**31.12.2018**	31.12.2017 adjusted
Current liabilities			
Trade payables	17.1	1,934	1,416
Current financial liabilities [1)]	17.2	11,435	12,046
Other current liabilities [1)]	17.3	573	521
Short-term provisions	18	2,382	1,840
Current liabilities, total		**16,324**	**15,823**
Non-current liabilities			
Non-current financial liabilities	19	148	488
Long-term provisions	20	1,505	1,732
Non-current other liabilities	21	85	22
Non-current liabilities, total		**1,738**	**2,242**
Equity			
Subscribed capital	22	24,155	24,155
Capital reserves	22	2,415	2,415
Retained earnings	22	5,756	-1,941
Equity, total		**32,326**	**24,629**
EQUITY AND LIABILITIES		**50,388**	**42,693**

[1)] *Prior-year figures adjusted. See explanations in the respective note*

CASH FLOW STATEMENT

FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER ACCORDING TO IFRS

in EUR thousand	2018	2017 adjusted
Net profit before tax	**2,529**	**720**
Adjustments for:		
Amortisation/depreciation on non-current assets	1,202	1,035
Financial income/financial expenditure	118	293
Other non-cash expenses/income	–	4
Profit from sale or disposal of non-current assets	15	2
Changes in:		
Trade receivables [1]	-206	86
Current financial assets [1]	-2,503	5,668
Other current assets [1]	-136	13
Trade payables	518	-541
Current financial liabilities [1]	1,482	-5,265
Other current liabilities [1]	-6	33
Short-term provisions	542	241
Non-current other liabilities	64	22
Long-term provisions	-228	207
Interest received	–	10
Interest paid	-121	-403
Cash flow from operating activities	**3,271**	**2,125**
Payments received (+)/disbursements (-) for financial instruments	–	5
Investments in intangible assets	-321	-490
Investments in tangible assets	-651	-854
Net losses (-)/gains (+) from asset disposals	0	0
Cash flow from investing activities	**-973**	**-1,339**
Payments received (+) from taking out financing loans	1,500	610
Disbursements (-) for redeeming financing loans	-3,998	-3,302
Cash flow from financing activities	**-2,498**	**-2,692**
Change in available funds	-199	-1,907
Available funds at the beginning of the period	8,271	10,178
Available funds at the end of the period	**8,072**	**8,271**
Composition of cash, cash equivalents and securities at the end of the period	**8,072**	**8,271**
Cash	8,072	8,271

[1] *Prior-year figures adjusted. See explanations in note 3*

Explanations are provided in note 3.

STATEMENT OF CHANGES IN EQUITY

FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER ACCORDING TO IFRS

in EUR thousand	Subscribed capital	Capital reserves	Other reserves	Retained earnings	**Total equity**
As at 1 January 2017	**24,155**	**41,012**	**-6**	**-43,070**	**22,091**
Net profit	–	–	–	2,533	2,533
Reclassification	–	-38,596	–	38,596	–
Other comprehensive income	–	–	6	–	6
Total comprehensive income	–	–	6	2,533	2,538
As at 31 December 2017	**24,155**	**2,415**	**–**	**-1,941**	**24,629**
As at 1 January 2018	**24,155**	**2,415**	**–**	**-1,941**	**24,629**
Net profit	–	–	–	7,697	7,697
Total comprehensive income	–	–	–	7,697	7,697
As at 31 December 2018	**24,155**	**2,415**	**–**	**5,756**	**32,326**

Explanations are provided in note 22.

NOTES

TO THE FINANCIAL STATEMENTS ACCORDING TO IFRS
FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2018

1 GENERAL

Lotto24 AG, Hamburg (hereinafter also referred to as »Lotto24«), is a listed company under German law. It is domiciled in Hamburg at the address Strassenbahnring 11, 20251 Hamburg, Germany, and entered in the Commercial Register of the District Court of Hamburg (Germany) under the registry number HRB 123037. The balance sheet date is 31 December 2018 and the fiscal year 2018 covered the period from 1 January 2018 to 31 December 2018.

The Company's parent company is Othello Vier Beteiligungs GmbH & Co. KG, Hamburg, Germany. Lotto24 AG is included in the consolidated financial statements of Günther SE, Bamberg, Germany, as Othello Vier Beteiligungs GmbH & Co. KG, Hamburg, Germany, is a subsidiary of Günther SE, Bamberg, Germany.

Lotto24 AG has no subsidiaries and no stakes in joint ventures or associated companies. Its main activity is the online brokerage of state-licensed lotteries in Germany.

These separate financial statements were prepared with a resolution of the Executive Board on 21 March 2019 and subsequently forwarded to the Supervisory Board for examination and approval. Publication was authorised with a resolution of the Executive Board on 21 March 2019.

2 GENERAL ACCOUNTING PRINCIPLES

The significant accounting principles applied by Lotto24 AG in preparing the separate financial statements are presented below. Unless noted otherwise, amounts are stated in thousands of euros (EUR thousand), which may lead to rounding differences in certain cases.

2.1 Significant accounting policies

2.1.1 General

The separate financial statements of Lotto24 AG as of 31 December 2018 were prepared in accordance with the valid IFRS and IFRIC of the »International Accounting Standards Board« (IASB) which have to be applied in the EU as of the balance sheet date, and additionally in accordance with the applicable commercial law regulations as stated in section 325 (2a) German GAAP (HGB).

New and revised standards applied in 2018

Compared to the separate financial statements according to IFRS as of 31 December 2017, Lotto24 AG applied the following new and amended standards and interpretations requiring mandatory application for the first time:

IFRS 2 »Share-based Payment (Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2«

IFRS 9 »Financial Instruments«

IFRS 15 »Revenue from Contracts with Customers including Clarifications on IFRS 15«

IFRIC 22 »Foreign Currency Transactions and Advance Consideration«

»Annual Improvements of IFRS, Cycle 2014–2016 – Amendments to IFRS 1 and IAS 28«

In the following, we will only discuss the new standards relevant to Lotto24, IFRS 9 and IFRS 15, and their effects.

Lotto24 applies the modified retrospective method for its initial application of IFRS 9.

Lotto24's business model was measured at the time of initial application of IFRS 9, on 1 January 2018, and was applied retrospectively to financial assets that were not derecognised before 1 January 2018.

The application of the new rules to be applied under IFRS 9 for the classification and measurement of financial instruments and for the impairment of financial assets did not result in any adjustments to the financial assets and liabilities recognised as at 1 January 2018. The new regulations on the recognition of hedging transactions have no effect as Lotto24 has not entered into any hedging transactions. The accounting and valuation methods to be applied according to IFRS 9 are presented in note 2.1.8.

As at the date of initial application on 1 January 2018, financial instruments were as follows:

As at 31 December 2017		**Valuation category according to IFRS 9**	
in EUR thousand		At fair value through profit or loss	At amortised cost
Valuation category according to IAS 39			
Loans and receivables			
Cash and short-term deposits	8,271	–	8,271
Trade receivables[1]	178	–	178
Current financial assets[2]	5,466	–	5,466
Available for sale		–	
Available for sale financial investments	–	–	–

[1] Term was changed. See also explanations in note 12
[2] Term was changed. See also explanations in note 13

As at 1 January 2017		Valuation category according to IFRS 9	
in EUR thousand		At fair value through profit or loss	At amortised cost
Valuation category according to IAS 39			
Loans and receivables			
Cash and short-term deposits	9,481	–	9,481
Trade receivables	274	–	274
Other receivables and prepaid expenses	11,669	–	11,125
Available for sale			
Available for sale financial investments	697	697	–

Lotto24 applies the modified retrospective method for its initial application of IFRS 15. There was no cumulative effect from the initial application of IFRS 15 as at the date of initial application on 1 January 2018.

The application of the 5-step model now to be applied in accordance with IFRS 15, including the standard's provisions on principal-agent relationships, did not lead to any adjustments in the amount, timing and presentation of revenue recognition. The accounting and valuation methods to be applied in accordance with IFRS 15 are presented in note 2.1.14.

Published standards which are not yet mandatory

Standards and interpretations which had been published at the time of publishing these annual financial statements but which were not yet mandatory are presented below, insofar as they can be expected to impact the financial position and performance of Lotto24. Lotto24 intends to adopt the amendments to these standards no later than as of their effective date:

IFRS 16 »Leases« (from/after 1 January 2019)

In January 2016, the IASB published the new standard IFRS 16 according to which lessees must recognise assets and liabilities for most leases in the balance sheet. For the lessor, there are only minor changes compared to accounting according to IAS 17 »Leases«. As a consequence of initial adoption, the majority of rental and leasing obligations currently disclosed in section 23 »Other financial obligations« will have to be disclosed in the balance sheet, thus increasing the total amounts. Lotto24 formed a project team which examined all leasing agreements of Lotto24 in respect to the new accounting regulations for leases according to IFRS 16. The standard will primarily affect the accounting of Lotto24's operating leases.

As of the reporting date, Lotto24 has obligations from non-cancellable operating leases of EUR 4,999 thousand, see note 23. Of these obligations, around EUR 29 thousand are low-value leases which will continue to be expensed using the straight-line method option provided by IFRS 16. As of the reporting date, there were no significant short-term leases.

In the case of the remaining lease obligations, Lotto24 expects to recognise rights of use in the amount of EUR 3,276 thousand on 1 January 2019, from lease liabilities of EUR 3,276 thousand.

Lotto24 expects earnings after taxes to decrease by around EUR 70 thousand in 2019 due to adoption of the new regulations.

Cash flow from operating activities and cash flow from financing activities will decrease by around EUR 100 thousand, as the repayment of the capital amount of the lease liabilities is classified as cash flow from financing activities.

Lotto24 intends to apply the modified retroactive transition method and will not retroactively restate comparative amounts for the year prior to adoption. Rights of use for real estate leases are valued at the time of transition as if the new regulations had always applied. All other rights of use are measured at the amount of the lease liability upon acquisition (adjusted for any prepaid or accrued lease expenses).

2.1.2 Basis of preparation

The separate financial statements were prepared on the basis of historical cost. Excluded from this were obligations from share-based payment transactions, which were carried at fair value.

2.1.3 Measurement currency

The functional and reporting currency is the euro (EUR). Unless otherwise stated, amounts are stated in thousands of euros (EUR thousand), which may lead to rounding differences in certain cases.

2.1.4 Estimates and assumptions

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

Goodwill

We conduct at least one impairment test for goodwill each year. An impairment charge is recognised when the recoverable amount of the asset falls below its carrying amount. We determine the recoverable amount for goodwill on the basis of forward-looking estimates and assumptions, such as billings and revenues, cost items, headcount, funding needs and growth rates. These are set by the Executive Board and continuously monitored and updated. Further details are presented in note 14.

Deferred tax assets

We recognise deferred tax assets for all unused tax loss carryforwards to the extent that it appears probable that taxable income will be available, so that the loss carryforwards can actually be used. When determining the amount of the deferred tax assets, the Executive Board must make estimations regarding the expected time and size of the future taxable income, as well as future tax planning. Further details are provided in note 10.

2.1.5 Intangible assets

Intangible assets are measured initially at cost. They are recognised if it is probable that the future economic benefits that are attributable to the asset will flow to the entity, and the cost of the asset can be measured reliably. After initial recognition, intangible assets are measured at cost less accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised using the straight-line method over their estimated useful lives. The amortisation period and method are reviewed at the end of each fiscal year. The Company holds no intangible assets with non-definable useful lives.

2.1.6 Property, plant and equipment

In accordance with IAS 16, property, plant and equipment are recognised as assets if it is probable that the future economic benefits attributable to those assets will flow to the enterprise and the cost of the assets can be measured reliably. Property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. If items of property, plant and equipment are sold or retired, we eliminate their cost of purchase and accumulated depreciation from the balance sheet and recognise any gains or losses resulting from their disposal in profit or loss. The cost of property, plant and equipment comprises the purchase price, other non-refundable taxes and all directly allocable costs incurred in making the asset operational. Purchase price reductions such as bonuses, cash discounts and other discounts are deducted from the purchase price. We recognise any subsequent costs, such as repair and maintenance expenses, in the period in which they are incurred. If it can be demonstrated that such expenses increase the future economic benefit that arises from the use of the asset above the original level of performance, the expenses are recognised as subsequent costs.

2.1.7 Impairment and write-backs of non-current non-financial assets

On every balance sheet date, we assess whether there is any indication of impairment of non-financial assets. If this is the case, or if as with goodwill an asset needs to be subjected to an annual impairment test, we estimate the recoverable amount of the respective asset. The recoverable amount of an asset is the higher of the fair value of an asset or cash-generating unit less selling costs and its value in use.

The recoverable amount must be determined for each individual asset, unless the asset does not generate cash inflows that are largely independent from other assets or groups of assets. In the latter case, the impairment test is conducted at the level of a group of assets which generates cash inflows largely independent of those from other assets (cash-generating unit). If the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and written down to its recoverable amount.

In order to calculate the value in use of an asset or cash-generating unit, we discount estimated future cash flows to their present value using a pre-tax discount rate that reflects the current market expectations of interest and the specific risks of the asset or cash-generating unit. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used.
In the case of non-financial assets, we carry out a review on each reporting date to ascertain whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. A previously recognised impairment loss is only reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited to the extent that the carrying amount of an asset may not exceed its recoverable amount nor the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised for the asset in prior years. We recognise reversals in the income statement. An impairment loss recognised for goodwill shall not be reversed in subsequent periods.

2.1.8 Recognition and measurement of financial assets

Financial assets are recognised when the Company becomes a contractual party to the financial instrument.

As of 1 January 2018, Lotto24 AG applies the following accounting methods in accordance with IFRS 9:

Financial assets are assigned to the following measurement categories:

- those subsequently measured at fair value (either in the income statement or in other comprehensive income), and
- those measured at amortised cost.

The classification depends on the Company's business model for managing financial assets and on the contractual cash flows. All Lotto24's financial assets are held in a business model geared to the collection of contractual cash flows. At present, only equity instruments are subsequently measured at fair value.

On initial recognition, we measure a financial asset at fair value plus – in the case of a financial asset not subsequently measured at fair value through profit or loss – the transaction costs directly attributable to the acquisition of that asset. Transaction costs of financial assets measured at fair value through profit or loss are recognised as an expense in the income statement. A purchase or sale of financial assets under standard market conditions is recognised on the trading date, for example the date on which Lotto24 undertakes to buy or sell the asset.

The subsequent measurement of financial assets which are

- measured at amortised cost: assets which are held to collect the contractual cash flows and for which these cash flows represent exclusively interest and principal payments are measured at amortised cost. Interest income from these financial assets is disclosed under financial income using the effective interest method. Gains or losses on derecognition are recognised directly in the income statement and disclosed under other gains (losses). We include trade receivables and current financial assets in this measurement category.

Lotto24 has two types of financial assets that are subject to the new model of expected credit losses to be applied as of 1 January 2018:

- trade receivables,
- debt instruments measured at amortised cost.

In the case of trade receivables, we apply the simplified approach according to which credit losses expected over the complete term of the receivable are recognised as an impairment loss on initial recognition of the receivable.

Lotto24 uses the general approach for other debt instruments measured at amortised cost as receivables from gaming operations, cash and cash equivalents and deposits paid do not fall within the scope of the simplified approach for trade receivables. Lotto24 determines whether it needs to determine a provision for 12-month expected credit loss (ECL). Lotto24 checks at each balance sheet date whether the credit risk has increased or decreased. The short-term nature of the debt instruments (debt instruments are generally settled within 6 days) means that Lotto24 assumes a low default risk for this item.

Lotto24 first determines or gathers historical default data. As soon as a return debit entry is posted to the customer account, an automated payment instruction is issued. If customers do not pay themselves within a period of 14 days, a three-stage dunning process and subsequent collection procedure starts automatically.

In addition to the analysis of historical default data, Lotto24 AG also forecasts future economic conditions and events. To this end, Lotto24 AG is in constant contact with its service providers regarding changes in the general payment behaviour of customers using online services. If this information provides additional indicators for the forecasts, Lotto24 applies them.

Until 31 December 2017, the loss incurred model pursuant to IAS 39 was applied for determining impairment. In the case of returned direct debits in addition to fees from customer payments, we made lump-sum individual value adjustments affecting expenses, depending on the processing status of the dunning and collection procedures, whereby the value adjustment ratios were based on analyses and historical default experience values. After a first payment reminder, we collected receivables via a three-stage dunning process up to transfer to a collection agency and, if necessary, via judicial dunning proceedings. Items that are finally deemed lost were fully expensed and the corresponding receivables derecognised.

Impairment losses on trade receivables are and were recognised in operating profit as net impairment losses. Amounts previously written off that are retrieved in subsequent periods are recognised in the same item.

We consider a financial asset to be in default if the contractual payment is 14 days overdue. In certain cases, we regard a financial asset as impaired if we receive internal or external information that indicates that we do not expect to receive the full contractual amount outstanding. A financial asset is written off if there is no reasonable expectation that the contractual cash flows will be restored.

We derecognise a financial asset if our contractual right to receive cash flows from the financial asset expires or if we transfer our right to receive cash flows from the asset or are obliged to pay the cash flows received in full to a third party without undue delay as part of a transfer agreement and have either (a) substantially transferred all risks and rewards of the asset or (b) have not substantially transferred all risks and rewards of the asset but only the control of the asset.

Until 31 December 2017, Lotto24 measured financial assets in accordance with IAS 39 as follows:

– loans and receivables (measured at amortised cost),
– available-for-sale financial investments (measured at fair value outside profit or loss).

The classification was dependent on the purpose for which the financial investments were acquired.

The first-time application of IFRS 9 did not fundamentally change measurement on initial recognition. We therefore refer to the explanations provided above.

Gains or losses on the fair value measurement of available-for-sale financial assets were recognised directly in equity until the financial asset was sold, redeemed or otherwise disposed of, or until it was determined to be impaired, at which time the cumulative gain or loss previously recognised in equity was included in profit or loss.

We eliminated financial assets from the balance sheet if we lost the disposing power over the contractual rights which formed the basis for the financial asset.

2.1.9 Recognition and measurement of financial liabilities

All financial liabilities are measured at fair value on initial recognition. Our financial liabilities include trade and other payables, bank overdrafts, loans and borrowings. After initial recognition, we measure financial liabilities at amortised cost using the effective interest method. A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. The initial application of IFRS 9 as of 1 January 2018 has had no impact on our accounting and valuation of financial liabilities.

2.1.10 Cash and current financial assets

Cash includes bank balances and cash on hand and is stated at amortised cost. We refer to the comments in note 11.

2.1.11 Other provisions

We recognise other provisions for legal or constructive obligations that arise prior to the balance sheet date if it is probable that an outflow of Company resources will be required to settle the obligations and a reliable estimate can be made of the amount of the obligations. Provisions are reviewed at each balance sheet date and adjusted to reflect the best estimate in each case. The amount of the provision is the present value of the expenditures expected to be required to settle the obligation. Provisions are discounted insofar as the interest effect is significant. The other provisions account for all recognisable obligations to third parties.

2.1.12 Share-based payment

A share-based payment is a transaction in which the entity receives or acquires goods or services either as consideration for its equity instruments or by incurring liabilities for amounts based on the price of the entity's shares or other equity instruments of the entity.

Lotto24 AG has granted share-based payment in the form of so-called phantom shares in the Company. The payment amount depends on the value of Lotto24 AG shares and is settled in cash (cash-settled share-based payment transaction).

Measurement is at fair value as at the balance sheet date, taking into account the vesting conditions. Expenses from the formation of and changes in obligations are carried as personnel expenses. For further details, please refer to the explanations in note 20.

2.1.13 Income taxes

Current tax refund claims and tax liabilities for the current period are measured at the amount at which the refund from the tax authority or payment to the tax authority is expected. The calculation is based on tax rates and tax legislation which apply on the balance sheet date in Germany.

We calculate tax expenses on the basis of the profit or loss recorded for the period taking account of current and deferred taxes. Deferred tax is provided using the balance sheet-oriented liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. We recognise deferred tax liabilities for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax losses and unused tax credits, to the extent that it is probable that there will be taxable income against which the deductible temporary differences, the carry forward of unused tax losses within a planning period of the next five years taking account of German minimum taxation rules, and unused tax credits can be utilised. Deferred tax assets and deferred tax liabilities can be offset, if we have a legally enforceable right to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same tax authority.

Deferred tax and current tax relating to items recognised outside profit or loss is also recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

2.1.14 Revenues

We generate revenues in the following areas:

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

Revenues from contracts with lottery companies and customers (players) are recognised when control over the corresponding services (brokerage and remittance of tickets) is transferred to the customer.

We generate our revenues mainly from commissions received from the respective lottery companies for tickets or stakes brokered and to be transmitted, as well as from additional fees charged to our customers. Some of the agreements with state lottery companies contain proportional commission rates which are triggered when agreed size criteria are exceeded. The increased proportional commission rates apply either to the excess amounts as of the fulfilment date or retroactively for the complete past time period and are recognised accordingly. The commissions and additional fees do not contain financing components and are due either immediately or according to the agreement. Revenue is recognised at a point in time.

In the brokerage business, commissions and additional/ticket fees are recognised as revenues when the bets have been made, the lottery ticket information passed on to the lottery organiser and confirmation of receipt has been obtained. We render the brokerage of the tickets for which we receive commissions and additional/ticket fees at the time when the power of disposal is transferred to the lottery organisers. We transfer the brokered stakes directly to the lottery companies without the involvement of third parties.

In allocating proportional commission rates, Lotto24 applies the exceptions according to which variable consideration is allocated in full to a specific contract component.

We disclose stakes received from customers in the income statement as billings. The difference between stakes to be remitted (less commission) and billings represent our own revenues. In the course of our online brokerage of lottery products, we collect the amounts owed by our customers via direct debit or credit card charges.

Billings consist of the accumulated stakes received from customers for game participation and additional fees. As this figure determines the commission rates, billings also have a direct influence on the size of revenues.

Registered customers are those customers who have successfully completed the registration process on the Lotto24 website. We disclose this number after adjustment for multiple registrations and deregistrations.

Until 31 December 2017, the Lotto24 AG disclosed revenues according to IAS 18 as follows:

Revenues are recognised when services have been provided or goods delivered, the risk has been transferred to the beneficiary or the buyer, it is probable that the economic benefits attributable to the transaction will flow to Lotto24 AG, and the amount of revenues can be reliably measured.

2.1.15 Operating expenses

We recognise operating expenses at the time the products or goods are delivered or the services provided.

2.1.16 Revenues from financial activities

Interest income is carried pro rata temporis, taking into account the effective annual return of a financial asset.

2.1.17 Expenses from financial activities

Interest expenses are carried pro rata temporis, taking into account the effective interest rate of a financial liability.

2.1.18 Contingent receivables

A contingent receivable is a possible asset that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. No contingent receivables are carried in the separate financial statements.

2.1.19 Contingent liabilities

A contingent liability is a possible obligation that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. Or it is a present obligation that arises from past events, but is not recognised as an outflow of resources embodying economic benefits is not probable for the fulfilment of this obligation or the amount of the obligation cannot be measured reliably. No contingent liabilities are carried in the separate financial statements.

3 CASH FLOW STATEMENT

The cash flow statement is prepared pursuant to IAS 7 (»Cash Flow Statements«), whereby a distinction is made between cash flows from operating, investing and financing activities.

The cash flow from operating activities was derived using the indirect method.

In order to improve clarity, Lotto24 reclassified the item »Creditors with debit balances« (2018: EUR -43 thousand; prior year: EUR 1 thousand) from the line »Trade receivables« (2018: EUR -206 thousand; prior year: EUR 95 thousand) to the item »Current financial assets« (2018: EUR -2,503 thousand; prior year: EUR 0 thousand).

Moreover, the items »Tax receivables« (2018: EUR 0 thousand: prior year: EUR 7 thousand) and »Prepaid expenses« (2018: EUR -136 thousand; prior year: EUR 6 thousand) were reclassified from the item »Other assets and prepaid expenses« (2018: EUR 0 thousand; prior year: EUR 5,672 thousand) to a separate line »Other current assets« (2018: EUR -136 thousand; prior year: EUR 0 thousand) in order to improve clarity.

There was also a reclassification of the items »Receivables from gaming operations« (2018: EUR -2,263 thousand; prior year: EUR 5,699 thousand) and »Deposits/collateral« (2018: EUR -5 thousand; prior year: EUR -35 thousand) from the item «Other assets and prepaid expenses« (2018: EUR 0 thousand; prior year: EUR 5,672 thousand) to the line »Current financial assets« (2018: EUR 5,668 thousand; prior year: EUR 0 thousand). These reclassifications are due to the separation of financial and non-financial assets in the balance sheet.

For the purpose of the cash flow statement, available funds as at 31 December 2018 comprised cash of EUR 8,072 thousand (prior year: EUR 8,271 thousand).

Liabilities from financing activities comprise the following:

	31.12.2017	Cash		Non-cash			31.12.2018
		Re-demption	Acquisition	Acquisition	Change in fair value	Reclassifi-cation	
in EUR thousand							
Reconciliation to the balance sheet:							
Short-term interest-bearing financial loans 1)	2,283	-3,998	1,500	–	–	408	193
Long-term interest-bearing financial loans 2)	488	–	–	69	–	-408	148
Total liabilities from financing activities	**2,771**	**-3,998**	**1,500**	**69**	**–**	**–**	**341**

1) Recognised in the following balance sheet item: Other current liabilities
2) Recognised in the following balance sheet item: Non-current financial liabilities

	31.12.2016	Cash	Non-cash			31.12.2017
			Acquisition	Change in fair value	Reclassifi-cation	
in EUR thousand						
Reconciliation to the balance sheet:						
Short-term interest-bearing financial loans 1)	3,206	-3,302	–	–	2,379	2,283
Long-term interest-bearing financial loans 2)	2,257	610	–	–	-2,379	488
Total liabilities from financing activities	**5,463**	**-2,692**	**–**	**–**	**–**	**2,771**

1) Recognised in the following balance sheet item: Other current liabilities
2) Recognised in the following balance sheet item: Non-current financial liabilities

4 SEGMENT REPORTING

Lotto24 does not have different operating segments. Lotto24 generated revenues of EUR 38,289 thousand (prior year: EUR 25,216 thousand) from contracts with customers in Germany.

5 REVENUES

With increased billings and improved margins from contracts with customers, Lotto24 achieved increased revenues of EUR 38,289 thousand in 2018 (prior year: EUR 25,216 thousand). In the reporting period, the gross margin improved to 11.9% (prior year: 11.4%).

Thanks to further successful marketing activities, we also gained many new customers in 2018. As a result, the number of registered customers as of 31 December 2018 rose to 2,169 thousand (prior year: 1,573 thousand). It developed over the year as follows:

in thousand	**2018**	2017
Number of registered customers on 31 December of the previous year	**1,573**	**1,282**
First quarter (new customers)	180	95
Second quarter (new customers)	198	66
Third quarter (new customers)	90	55
Fourth quarter (new customers)	128	75
Number of registered customers on 31 December	**2,169**	**1,573**

Registered customers are those customers who have successfully completed the registration process on our website. This number is disclosed after adjustment for multiple registrations and deregistrations. In 2018, the activity rate of Lotto24 customers amounted to 25.6% (prior year: 23.2%).

6 OTHER OPERATING INCOME

In fiscal year 2018, other operating income of EUR 246 thousand (prior year: EUR 38 thousand) mainly comprised a non-refundable renovation grant (EUR 153 thousand; prior year: EUR 0 thousand), income from written-off receivables (EUR 32 thousand; prior year: EUR 0 thousand) and other income from offset benefits in kind (EUR 39 thousand, prior year: EUR 29 thousand).

7 PERSONNEL EXPENSES

In fiscal year 2018, Lotto24 had higher personnel expenses than in the same period last year.

in EUR thousand	**2018**	2017
Salaries	7,942	7,911
Social security contributions	1,106	962
Total	**9,048**	**8,873**

Despite the year-on-year decrease in expenses for long-term, multi-year variable remuneration components for Executive Board members (EUR 786 thousand; prior year: EUR 1,482 thousand), personnel expenses rose marginally by 2% in 2018 due to the increase in headcount in absolute terms (up 15%) and higher expenses for variable remuneration components of employees. Details are provided in note 20.

8 OTHER OPERATING EXPENSES

in EUR thousand	2018	2017 adjusted
Marketing expenses	15,423	7,890
Direct operating expenses [1]	3,015	2,009
Indirect operating expenses	6,599	3,924
Total [1]	**25,038**	**13,823**

[1] *Prior-year figures adjusted accordingly due to IAS 1 (82) (ba)*

Other operating expenses rose year on year by EUR 11,215 thousand, from EUR 13,823 thousand to EUR 25,038 thousand.

The following factors influenced this development:

- Due to exceptionally positive market conditions with high jackpots for the »EuroJackpot« lottery, resulting in an increase in our marketing activities, as well as the test run of comparatively more expensive TV commercials in the first half of 2018, marketing expenses of EUR 15,423 thousand were well above the prior-year figure of EUR 7,890 thousand.
- As a result of increased billings, direct costs of operations (mainly costs for billings-related payment transactions as well as B2B and business services) rose from EUR 2,009 thousand to EUR 3,015 thousand. We expect that direct costs will continue to increase in future, as they develop more or less in proportion with billings.
- Indirect operating expenses increased from EUR 3,924 thousand to EUR 6,599 thousand. As we strengthened our internal IT teams with freelancers due to the lack of skilled staff, there was a particularly strong rise in the use of external IT management and consultancy services to EUR 3,474 thousand (prior year: EUR 1,648 thousand). At the same time, there was an increase in costs for office space to EUR 876 thousand (prior year: EUR 447 thousand) and in other personnel expenses to EUR 631 thousand (prior year: EUR 366 thousand).

9 FINANCIAL RESULT

Expenses from financial activities of EUR 118 thousand (prior year: EUR 303 thousand) largely relate to interest expenses for existing loans, which were already redeemed in the reporting period.

10 INCOME TAXES

Income taxes paid or payable as well as deferred taxes are recognised as income taxes. Lotto24 generated a positive tax result and paid income taxes for the first time in fiscal year 2018 (with due regard to minimum taxation). We recognised deferred tax assets on loss carry-forwards in accordance with their expected future use. Moreover, we formed deferred tax liabilities for goodwill carried in the balance sheet according to IFRS, which is subjected to an impairment test and not written down in scheduled amounts. The following explanations are therefore of a more general nature.

The corporate income tax rate remained unchanged from 2017 at 15.0%, the solidarity surcharge was unchanged at 5.5% of corporate income tax.

Trade tax on income is levied on the trading profit of an entity, which is calculated by taking the taxable income according to income and corporation tax law together with any additions or subtractions according to German trade tax law. The effective trade tax on income rate depends on the municipality in which the entity maintains a permanent establishment for carrying on its operations.

The effective trade tax on income rate for Hamburg also remained unchanged in fiscal year 2018 at 16.45%. The same percentage is also used to calculate deferred taxes.

Deferred taxes under IAS 12 are calculated at the anticipated average tax rate at the time the differences are reversed. For the calculation of deferred taxes, the total tax rate amounted to 32.28% (prior year: 32.28%).

in EUR thousand	**2018**	2017
Actual tax expense	-58	–
Tax income from the recognition of deferred tax assets on loss carryforwards due to temporary differences	5,631	2,218
Tax expense from the recognition of deferred tax liabilities due to temporary differences	-406	-406
Deferred taxes	**5,225**	**1,813**
Actual and deferred income taxes	**5,168**	**1,813**

in EUR thousand	**2018**	2017
Tax reconciliation		
Net profit before taxes	2,529	720
Tax rate	32.28%	32.28%
Expected tax expense	-816	-232
Additions according to section 8 GewSt	-11	-17
Tax effects from operating expenses not fully deductible	-27	-22
Capitalisation of previously unrecognised loss carryforwards	6,021	2,084
Actual and deferred income taxes	**5,168**	**1,813**

Deferred tax assets and liabilities developed as follows:

in EUR thousand	01.01.2018	Income(+)/ expense(-)	Neutral (through equity)	**31.12.2018**
Deferred tax assets				
Deferred tax assets due to temporary differences	50	19	–	68
Deferred tax assets due to tax loss carryforwards	9,420	5,612	–	15,032
	9,470	**5,631**	**–**	**15,100**
Netting with deferred tax liabilities				-2,636
Total				**12,464**

in EUR thousand	01.01.2018	Income(+)/ expense(-)	Neutral (through equity)	**31.12.2018**
Deferred tax liabilities				
Deferred tax liabilities due to temporary differences (income statement)	2,231	-406	–	2,636
Deferred tax liabilities due to temporary differences (equity)	–	–	–	–
	2,231	**-406**	**–**	**2,636**
Netting with deferred tax assets				-2,636
Total				**0**

in EUR thousand	01.01.2017	Income(+)/ expense(-)	Neutral (through equity)	**31.12.2017**
Deferred tax assets				
Deferred tax assets due to temporary differences	20	32	-3	50
Deferred tax assets due to tax loss carryforwards	7,234	2,186	–	9,420
	7,254	**2,218**	**-3**	**9,470**
Netting with deferred tax liabilities				-2,231
Total				**7,239**

in EUR thousand	01.01.2017	Income(+)/ expense(-)	Neutral (through equity)	**31.12.2017**
Deferred tax liabilities				
Deferred tax liabilities due to temporary differences (income statement)	1,825	-406	–	2,231
Deferred tax liabilities due to temporary differences (equity)	–	–	–	–
	1,825	**-406**	**–**	**2,231**
Netting with deferred tax assets				-2,231
Total				**0**

The income taxes of EUR 5,168 thousand (prior year: EUR 1,813 thousand) disclosed in the income statement result from the total of changes in deferred tax assets and deferred tax liabilities of EUR 5,225 thousand (prior year: EUR 1,813 thousand) and the amounts calculated for 2018 for corporation tax, solidarity surcharge and trade tax amounting to EUR 58 thousand (prior year: EUR 0 thousand).

Lotto24 AG recognises deferred tax assets for tax loss carryforwards, as the underlying planning provides substantial indications that there will be sufficient corresponding taxable results within the next five years, under consideration of the German minimum tax regulations. Deferred tax liabilities (temporary differences) mainly result from the differing carrying amounts for goodwill according to IFRS and tax law.

The underlying planning also provides the basis for impairment tests of goodwill (see also note 14). Planning considers the successful development of business so far and the continued validity of the permits granted.

11 CASH AND CURRENT FINANCIAL ASSETS

As at 31 December 2018, cash amounted to EUR 8,072 thousand (prior year: EUR 8,271 thousand) and was deposited almost entirely with three banks.

As at 31 December 2018, current financial assets comprised the following items:

in EUR thousand	31.12.2018	31.12.2017 adjusted
Receivables from gaming operations	6,714	4,450
Deposits	1,016	1,011
Others	242	6
Total	**7,970**	**5,466**

Receivables from gaming operations rose as a result of increased billings caused by high jackpots and closing date-related settlement effects. They include receivables on customer winnings to be forwarded, as well as receivables from current payment processing and the Company's own brokerage commission claims. Deposits mainly comprise collateral to be provided to the state lottery companies. Other current financial assets consist primarily of creditors with debit balances.

The items »Receivables from gaming operations« (2018: EUR 6,714 thousand; prior year: EUR 4,450 thousand), »Deposits« (2018: EUR 1,016 thousand; prior year: EUR 1,011 thousand) and »Others« (2018: EUR 60 thousand; prior year: EUR 6 thousand) which were disclosed in 2017 under »Other assets and prepaid expenses« are now disclosed under »Current financial assets« in order to achieve a separation of financial and non-financial assets in the balance sheet.

As in the previous year, all current financial assets are due in less than one year. As at the balance sheet date, no impairment losses were recognised as no significant losses were expected. There were also no impairment losses in the previous year as no loss events had occurred as of the balance sheet date.

12 TRADE RECEIVABLES

in EUR thousand	31.12.2018	31.12.2017 adjusted
Receivables from customers	365	167
Receivables from amounts passed on	13	7
Receivables from affiliated companies	5	4
Total	**384**	**178**

Trade receivables are non-interest-bearing and mainly comprise receivables from amounts passed on, reimbursement claims and open billing amounts from customers, which are all due in less than one year.

In contrast to the previous year, Lotto24 reclassified the item »Creditors with debit balances« (2018: EUR 44 thousand; prior year: EUR 1 thousand) from »Trade receivables« to the item »Current financial assets« in order to achieve a separation of financial and non-financial assets in the balance sheet.

Lotto24 applies the simplified approach according to IFRS 9 to measure expected credit losses.

For the measurement of expected credit losses, trade receivables were analysed on the basis of historical experience. The expected loss rates are based on payment profiles over a period of 36 months prior to 31 December 2018 or 1 January 2018 and the corresponding historical defaults in this period. Lotto24 adjusts these loss rates if there is current information with a significant influence on customer payment profiles. In addition, Lotto24 analyses future economic circumstances and events. The first-time application of IFRS 9 did not lead to any changes in the amount of value adjustments as of 1 January 2018.

Value adjustments for trade receivables developed as follows in fiscal year 2018:

in EUR thousand	**31.12.2018**	31.12.2017
Value adjustments at the beginning of the fiscal year	**323**	**595**
Increase/decrease in value adjustments affecting the income statement during the reporting period	102	-109
Payments recovered for previously impaired receivables	–	-163
Value adjustments at the end of the fiscal year	**426**	**323**

A total increase in value adjustments for receivables from customers of EUR 102 thousand was expensed (prior year: EUR -109 thousand) and disclosed under impairment loss for financial assets.

In addition, an amount of EUR 497 thousand (prior year: EUR 620 thousand) was expensed for bad debts and disclosed under impairment loss for financial assets.

In total, EUR 599 thousand (prior year: EUR 511 thousand) was recognised for value adjustments and bad debts in the income statement under impairment loss for financial assets.

After value adjustments, trade receivables outstanding as of the reporting date can be broken down as follows:

in EUR thousand	**Book value**	Thereof not yet overdue	Overdue by more than 30 days
Trade receivables less value adjustments as of 31 December 2018	384	295	89
Trade receivables less value adjustments as of 31 December 2017	178	119	59

13 OTHER CURRENT ASSETS

The items »Receivables from gaming operations« (2018: EUR 6,714 thousand; prior year: EUR 4,450 thousand), »Deposits« (2018: EUR 1,016 thousand; prior year: EUR 1,011 thousand) and »Others« (2018: EUR 242 thousand; prior year: 6 thousand) which were disclosed in 2017 under »Other assets and prepaid expenses« are now disclosed under »Current financial assets« in order to achieve a separation of financial and non-financial assets in the balance sheet.

In contrast to the previous year, Lotto24 reclassified the item »Creditors with debit balances« (2018: EUR 44 thousand; prior year: EUR 1 thousand) from »Trade receivables« to the item »Current financial assets«.

Other current assets mainly include prepaid expenses for maintenance and support services for software and hardware, as well as marketing services of EUR 667 thousand (prior year: EUR 532 thousand). Other current assets are non-financial assets.

14 GOODWILL

Lotto24 AG examines its unchanged goodwill of EUR 18,850 thousand at least once per year at the end of the reporting period with regard to impairment. Goodwill is allocated to the legal entity Lotto24 as the cash-generating unit (CGU). The test compares the carrying amount with the recoverable amount, in other words the higher of net realisable value and value in use. We calculate value in use on the basis of discounted future cash flow projections from internal budgets for several years as approved by management.

Budget calculations are based on a detailed planning period of five years, as the standard planning period of Lotto24 AG. For the discounting of cash flows in the detailed planning period, the Company used CAPM-based costs of capital before taxes of 7.95% (prior year: 9.12%).

At the end of the detailed planning period, the years after 2024 (prior year: after 2023) apply a reconciled perpetual annuity based on the CAPM discounted with an average cost of capital of 5.29% (prior year: 6.12%). The calculation of the perpetual annuity is based on a sustainable, average growth rate of 2.0% (prior year: 2.0%).

The sensitive planning assumption is the generally expected growth in the online lottery market as a result of the liberalisation (Internet brokerage, advertising) of the gaming market since 2012 in connection with European trends. This is linked with the development of billings, revenues, personnel expenses, and direct and indirect operating expenses.

We continually monitor and update the relevant technical, market-based, economic and legal parameters and conditions for the impairment test. As there were no indications of impairment in the reporting period, an impairment test for goodwill was conducted at the end of the reporting period and no non-scheduled writedowns were recognised (prior year: EUR – thousand).

A sensitivity test of the planning assumptions revealed that ceteris paribus no realistic change in the applied parameters EBIT margin and growth rate would lead to impairment.

15 INTANGIBLE ASSETS

Intangible assets developed as follows:

in EUR thousand	**2018**	2017
Acquisition costs as of 1 January	**2,098**	**1,673**
Additions (purchased from third parties)	347	490
Disposals	–	-64
Acquisition costs as of 31 December	**2,445**	**2,098**
Accumulated depreciation as of 1 January	**-1,544**	**-1,227**
Depreciation of the period	-329	-381
Disposals	–	64
Accumulated depreciation as of 31 December	**-1,874**	**-1,544**
Net book value as of 31 December	**572**	**554**

On commencement of use, the intangible assets listed above have useful lives of three years. There are no restrictions on rights of disposal and no assets were pledged as collateral for liabilities. The additions consist mainly of acquisition costs in connection with the expansion of licences for the development department (EUR 223 thousand) and the ongoing development of the Lotto24 apps (EUR 78 thousand).

16 PROPERTY, PLANT AND EQUIPMENT

With regard to the development of property, plant and equipment, we refer to the following table showing the development of furniture, fixtures and office equipment.

in EUR thousand	2018	2017
Acquisition costs as of 1 January	**3,160**	**2,329**
Additions (purchased from third parties)	694	854
Disposals	-155	-23
Acquisition costs as of 31 December	**3,700**	**3,160**
Accumulated depreciation as of 1 January	**-1,558**	**-925**
Depreciation of the period	-873	-654
Disposals	139	21
Accumulated depreciation as of 31 December	**-2,291**	**-1,558**
Net book value as of 31 December	**1,409**	**1,602**

The useful life of tangible assets is generally between one and thirteen years. There are no restrictions on rights of disposal and no assets were pledged as collateral for liabilities. Additions mainly consisted of software and hardware for workstations and equipment for new office spaces (EUR 441 thousand), as well as acquisitions of data centre equipment (EUR 238 thousand).

There are currently no assets from financial leases.

17 CURRENT LIABILITIES

17.1 Trade payables

Trade payables amount to EUR 1,934 thousand (prior year: EUR 1,416 thousand) and mainly consist of payment obligations still due on the balance sheet date for marketing services as well as technical and legal consultancy already received. All trade payables are due within one year.

17.2 Current financial liabilities

Current financial liabilities comprised the following items:

in EUR thousand	31.12.2018	31.12.2017 adjusted
Liabilities from gaming operations	11,197	9,532
Interest-bearing loan	193	2,283
Other	45	231
Total	**11,435**	**12,046**

The items »Amounts due in connection with taxes (VAT, payroll and church taxes) and social security« (2018: EUR 449 thousand; prior year: EUR 431 thousand) and »Holiday obligations« (2018: EUR 123 thousand; prior year: EUR 90 thousand) which were 2017 under »Other liabilities« are now disclosed in the item »Other current liabilities« in order to achieve a separation of financial and non-financial assets in the balance sheet.

As of 31 December 2018, current financial liabilities fell to EUR 11,435 thousand (prior year: EUR 12,046 thousand). They mainly comprised liabilities from gaming operations of EUR 11,197 thousand (prior year: EUR 9,532 thousand), which were influenced by increased billings. This item, which is expected to increase further as billings grow, comprises obligations from invoicing our customers and the state lottery companies. The item also includes small winnings which customers leave on their gaming accounts and use later to pay for tickets.

Interest-bearing loans include current payments, due within one year, for the IT equipment at our new data centres (hire purchase agreements: EUR 193 thousand; prior year: EUR 283 thousand). The loan of originally EUR 2,000 thousand granted by the Günther Group in September 2016, which had initially increased to EUR 3,500 thousand after drawing the contractually agreed second tranche in May 2018, was prematurely redeemed in four partial amounts – in the months August, September, October and November 2018 – due to the positive liquidity situation (prior year: EUR 2,000 thousand).

17.3 Other current liabilities

In contrast to the previous year, Lotto24 reclassified the amounts »Amounts due in connection with taxes (VAT, payroll and church taxes) and social security« (2018: EUR 449 thousand; prior year: EUR 431 thousand) and »Holiday obligations« (2018: EUR 123 thousand; prior year: EUR 90 thousand) from the items »Other liabilities« to the item »Other current liabilities« in order to improve clarity and achieve a separation of financial and non-financial assets in the balance sheet.

Other current liabilities consist of liabilities from taxes, holiday obligations and payroll obligations.

As a result of reporting date effects, there was an increase in amounts due in connection with taxes – mostly from sales activities (EUR 228 thousand; prior year: EUR 320 thousand) – as well as payroll obligations (EUR 160 thousand; prior year: EUR 109 thousand) and holiday obligations (EUR 123 thousand; prior year: EUR 90 thousand).

18 SHORT-TERM PROVISIONS

in EUR thousand	31.12.2017	Addition	Reclassification from long-term provisions	Reversal	Utilisation	**31.12.2018**
Share-based remuneration (short-term)	1,057	10	980	–	-1,057	990
Bonus	732	1,340	–	-15	-717	1,340
Litigation costs	30	–	–	–	–	30
Other	21	22	–	–	-21	22
Total	**1,840**	1,372	980	-15	-1,795	**2,382**

Bonus provisions were formed pro rata temporis in 2018. All provisions are expected to be used within one year.

19 LONG-TERM FINANCIAL LIABILITIES

Long-term financial liabilities comprise longer-term, interest-bearing financial obligations which are also used for the funding of operations. Long-term financial liabilities include the non-current portion of hire purchase agreements for IT equipment (EUR 148 thousand; prior year: EUR 488 thousand).

20 LONG-TERM PROVISIONS

in EUR thousand	31.12.2017	Addition	Reclassification from long-term provisions	Reversal	Utilisation	**31.12.2018**
Share-based remuneration phantom shares	1,600	426	-980	–	–	1,047
Variable remuneration component revenues/ EBIT	132	326	–	–	–	458
Total	**1,732**	752	-980	–	–	**1,505**

The members of the Executive Board have been granted phantom shares with cash compensation as part of a share-based remuneration programme. The imputed number of shares is issued in annual tranches in the middle of the calendar year and vested in prorated amounts over the twelve following months (pro rata temporis). Due to the increase in size of the Executive Board to three members in 2016, the initial value of the nominal remuneration claim in euro increased to EUR 410 thousand. As half of the long-term remuneration component is due to be converted on 1 January 2017, the initial value for this share-based remuneration programme decreased from EUR 410 thousand to EUR 205 thousand. The number of shares is calculated by dividing a nominal remuneration claim in euro (initial value) by the average Lotto24 share price (Xetra or a functionally comparable successor system) for the past 90 trading days. Claims to receive payment accrue after a vesting period of four years. The Company's share-based remuneration obligations are measured at fair value discounted for their remaining term using the rolling average Lotto24 share price (Xetra) for the past 90 trading days and are limited in their value growth to three times the initial value.

With effect from 1 January 2017, 50% (amounting to EUR 205 thousand for the Executive Board as a whole) of the long-term remuneration component (phantom shares with cash compensation) was changed to a variable remuneration component, whereby the tranche term for the new component was reduced from four to three years. The KPIs on which the new remuneration component is based (revenues and EBIT) reflect long-term growth and profitability targets. The respective initial budget and setting of KPI target threshold figures is decided in annual amounts at the beginning of the year and remunerated pro rata temporis. Remuneration claims arise after a three-year vesting period. The remuneration claim is discounted to fair value depending on the remaining term and is limited in value to the double of the initial value.

21 LONG-TERM OTHER LIABILITIES

Long-term other liabilities from leases include the proportion of rent-free periods in relation to the term of the lease amounting to EUR 85 thousand (prior year: EUR 22 thousand).

22 EQUITY

Subscribed capital equals the Company's capital stock and is fully paid.

in EUR thousand	**31.12.2018**	31.12.2017
Subscribed capital	24,155	24,155
Capital reserves	2,415	2,415
Retained earnings	5,756	-1,941
Total	**32,326**	**24,629**

At the Annual General Meeting on 12 May 2015, Authorised Capital was renewed. The Executive Board was hereby authorised to raise share capital for cash or non-cash contributions by up to EUR 4,391,798 (Authorised Capital 2015) – corresponding to almost 20% of share capital – in the period up to 11 May 2020 subject to approval by the Supervisory Board. Authorised Capital 2015 was partially used in the course of a capital increase for cash contribution in July 2015. As a result, the total number of no-par value shares issued by Lotto24 AG increased from 21,958,991 to 24,154,890 and Authorised Capital fell to EUR 2,195,899.

Due to a legal requirement, retained earnings cannot be distributed as a dividend. As of 31 December 2018, the amount blocked by the provisions of section 268 (8) HGB due to the capitalisation of deferred taxes and self-created intangible assets totalled EUR 18,520 thousand (prior year: EUR 13,315 thousand).

22.1 Authorised capital

According to section 4 (2) of the Articles, the Executive Board is authorised, subject to the approval of the Supervisory Board, to increase share capital in the period up to 11 May 2020 by up to a total of EUR 2,195,899 by issuing on one or more occasions in whole or in partial amounts new no-par value shares in return for cash or contributions in kind (Authorised Capital 2015), whereby shareholders are to be granted subscription rights. The new shares can also be accepted by one or several credit institutes chosen by the Executive Board or companies operating pursuant to section 53 (1) sentence 1 or section 53b (1) sentence 1 or (7) of the German Banking Act with the obligation to offer them to shareholders (indirect subscription right). However, the Executive Board is authorised, subject to the approval of the Supervisory Board, to exclude the rights of shareholders to subscribe in the following cases:

- to eliminate fractional amounts from subscription rights;
- for shares with a prorated amount of share capital up to EUR 2,195,899 for capital increases in exchange for contributions in kind for the purpose (also indirect) of acquiring companies, parts of companies, or equity investments in companies, for the acquisition of other assets (including receivables of third parties due from the Company or its affiliated companies), as well as in exchange for cash contributions or contributions in kind for the purpose of issuing shares to employees of the Company and its affiliated companies within the framework of legal regulations;
- to grant subscription rights to holders of options, convertible bonds or convertible profit participation rights that are to be issued;

- for capital increases in exchange for cash contributions, if the issue price of the new shares is not significantly lower than the market price of shares carrying the same rights at the time the issue price is fixed. The shares issued under exclusion of shareholders' subscription rights, pursuant to sections 203 (1), 186 (3) sentence 4 AktG, due to this authorisation shall not exceed 10% in total of the Company's share capital at the time the authorisation becomes effective or – if this value is lower – at the time this authorisation is exercised. The limit is reduced by such proportion of the Company's share capital that is represented by any treasury shares held by the Company which are sold during the term of »Authorised Capital 2015« under exclusion of shareholders' subscription rights pursuant to sections 71 (1) number 8, sentence 5, 186 (3) sentence 4 AktG. The limit is also reduced by such proportion of the Company's share capital that is represented by those shares to be issued in order to service convertible bonds or bonds with warrants, with option or conversion rights or obligations, providing the bonds are issued during the term of »Authorised Capital 2015« under exclusion of subscription rights in corresponding application of section 186 (3) sentence 4 AktG.

The Executive Board is authorised, with the consent of the Supervisory Board, to determine the details of the implementation of the capital increase and in particular the details of the rights conveyed by the shares and the terms and conditions of the share issue. The Supervisory Board is authorised to amend the text of the Company's Articles in accordance with the scope of the capital increase from Authorised Capital.

22.2 Capital reserves

As of 31 December 2018, capital reserves amounted to EUR 2,415 thousand (prior year: EUR 2,415 thousand) and include the legal reserve required by section 150 (2) AktG, which accounts for a tenth of share capital.

23 OTHER FINANCIAL OBLIGATIONS

There are other significant financial obligations arising from other contracts, including consultancy agreements, cooperation agreements, insurance contracts, license agreements and rental agreements in the following amounts:

in EUR thousand	2019	2020	2021	2022	2023 and later	**Total**
Other contracts	1,902	886	582	558	2,716	**6,644**
thereof operating leases	584	581	560	558	2,716	**4,999**

24 RELATED PARTIES

Related parties of Lotto24 AG comprise on the one hand the members of the Executive Board and Supervisory Board, including close relatives, and on the other hand those companies on which the Company's Executive Board and Supervisory Board members, and their close relatives, can exert a significant influence or in which they hold significant voting rights. Moreover, related parties include those companies with which the Company forms a group or in which it holds investments which enable it to exert a significant influence on the latter's business policy, as well as the Company's main shareholders including their affiliated companies (IAS 24).

Apart from the remuneration of the Executive Board and Supervisory Board (see note 26), there were no reportable business relationships with executive bodies of the Company in the reporting period. The short-term benefits for the Executive Board, consisting of the annual variable remuneration and the phantom shares, totalled EUR 1,545 thousand (prior year: EUR 1,407 thousand).

Othello Vier Beteiligungs GmbH & Co. KG as a shareholder of Lotto24 AG with a minority interest following a capital increase in July 2015 (entry date 16 July 2015) has grounds for a constantly anticipated (de facto) majority vote at future Annual General Meetings. As a result, as of 16 July 2015 there is a dependent relationship between Lotto24 AG and Othello Vier Beteiligungs GmbH & Co. KG according to section 17(1) German Stock Corporation Act (AktG). The top-level controlling parent company according to AktG of Othello Vier Beteiligungs GmbH & Co. KG is Oliver Jaster, Germany. There is no control or profit transfer agreement between Lotto24 AG and Othello Vier Beteiligungs GmbH & Co. KG. Pursuant to section 312 AktG, the Executive Board of Lotto24 AG has therefore drawn up a Dependent Company Report for the reporting period 1 January 2018 to 31 December 2018.

In June 2014, Lotto24 AG entered into two cooperation agreements with NKL lottery broker Oliver Jaster and SKL lottery broker Walter Günther. The aforementioned cooperation partners represent »related parties« pursuant to IAS 24. In addition, the NKL lottery broker Oliver Jaster is a »related company« as defined in the Related Parties Report. The cooperation agreements regulate the marketing of the class lotteries NKL and SKL via the Lotto24 AG website (Lotto24.de) with effect from 1 July 2014. Customers selecting class lottery products on Lotto24.de are redirected to the website Guenther.de, where they can purchase these class lottery products. For such successful redirecting, Lotto24 AG receives a permanent fixed percentage of the class lottery revenues generated by these customers. Prior to signing the agreement, Lotto24 AG had solicited several offers from various class lottery brokers in order to gauge standard market conditions and ultimately decided in favour of the offer made by the Günther companies.

In September 2016, Lotto24 AG (borrower) signed a loan agreement with Günther Services GmbH (lender). In the reporting period, the loan amounted to EUR 2,000 thousand. The interest expense in the fiscal year 2018 was EUR 63 thousand (prior year: EUR 90 thousand). The loan was due for repayment on 31 December 2018, but could be redeemed in full or part by Lotto24 AG at any time without prepayment penalty. The loan was prematurely redeemed in full in the months August and September. In April 2018, Lotto24 AG (borrower) signed a loan agreement with Othello Vier Beteiligungs GmbH & Co. KG as the lender. In the reporting period, the loan amounted to EUR 1,500 thousand. The interest expense in the fiscal year 2018 was EUR 37 thousand (prior year: EUR 0 thousand). The loan was due for repayment on 31 December 2018, but could be redeemed in full or part by Lotto24 AG at any time without prepayment penalty. The loan was prematurely redeemed in full in the months October and November. The interest rate for both loans was 450 base points plus 3-month Euribor per anno with a mark-up floor of 0%. In the case of further loans granted by third parties, the collateral (customer base, IT infrastructure and trademark) is subject to the consent of the lender. Lotto24 AG examined the marketability of the loan terms on the basis of a comparative offer. Günther Services GmbH and Othello Vier Beteiligungs GmbH & Co. KG are »affiliated companies« according to section 312 AktG and »related parties« according to IFRS accounting.

For details on related parties (Executive Board, Supervisory Board), please refer to note 26.

In accordance with section 312(3) AktG, the Executive Board made the following statement at the end of the Dependent Company Report for the reporting period: »According to the circumstances known to us at the date on which legal transactions were undertaken or measures were taken or omitted, Lotto24 received adequate consideration and was not disadvantaged by any measures taken or omitted.«

25 DISCLOSURES RELATING TO FINANCIAL INSTRUMENTS

The following table shows the carrying amounts of all categories of financial assets and liabilities:

In EUR thousand	**Carrying amount 31.12.2018**	Amortised cost	Fair value 31.12.2018
Financial assets			
Cash and cash equivalents	8,072	8,072	8,072
Trade receivables	384	384	384
Current financial assets	7,970	7,970	7,970
Financial liabilities			
Trade payables	1,934	1,934	1,934
Current financial liabilities	11,435	11,435	11,435
Non-current financial liabilities	148	148	148
Summary per category			
Financial assets measured at amortised cost	16,426	16,426	16,426
Financial liabilities measured at amortised cost	13,517	13,517	13,517

In EUR thousand	**Carrying amount 31.12.2017**	Amortised cost	Fair value 31.12.2017
Financial assets			
Cash and cash equivalents	8,271	8,271	8,271
Trade receivables [1)]	178	178	178
Current financial assets [1)]	5,466	5,466	5,466
Financial liabilities			
Trade payables	1,416	1,416	1,416
Current financial liabilities [1)]	12,046	12,046	12,046
Non-current financial liabilities	488	488	488
Summary per category			
Receivables and loans	13,917	13,917	13,917
Financial liabilities measured at amortised cost	13,950	13,950	13,950

1) Disclosed figures adjusted. See explanations in the respective note.

Financial assets measured at amortised cost

In the case of financial assets measured at amortised cost, it is assumed that the fair values correspond to the carrying amounts.

Financial liabilities measured at amortised cost

In the case of financial liabilities measured at amortised cost, it is assumed due to the mainly short remaining terms that the fair values correspond to the carrying amounts.

The following table shows the importance of net results from financial instruments:

in EUR thousand	2018	2017	2018	2017
	Recognised directly in equity		Recognised in profit or loss	
Financial assets				
Impairment loss for financial assets	–	–	-599	-511
Impairment loss for financial assets	**–**	**–**	**-599**	**-511**
Short-term financial investments	–	–	–	–
Available-for-sale financial investments	–	6	–	10
Financial liabilities				
Financial loans	–	–	-118	-303
Financial result	**–**	**6**	**-118**	**-293**

We use the following hierarchy to determine and disclose the fair value of financial instruments for each measurement method:

Level 1: listed (unadjusted) prices on active markets for similar assets or liabilities.

Level 2: methods in which all input parameters, which have a significant effect on the carried fair value can be observed, either directly or indirectly.

Level 3: methods which use input parameters which have a significant effect on the carried fair value and are not based on observable market data.

25.1 Credit risk

The scope of the credit risk of Lotto24 AG equals the sum of cash and other current assets.

Lotto24 AG has established an extensive management process to steer and regularly monitor the Company's investment strategy. Cash and any short-term financial assets the Company may hold are generally invested in short-term securities offering as much liquidity and as little volatility as possible, while ensuring risk diversification. Following regular monitoring, no default risks were detected as of the balance sheet date.

25.2 Liquidity risk

Due to the sufficiency of its liquid assets and further funding possibilities, Lotto24 is not exposed to any material liquidity risk – even in the case of significant restrictions of business against the backdrop of regulatory developments, we have sufficient liquidity to service our liabilities. Financial liabilities are mainly due immediately and mostly do not accrue interest.

25.3 Interest rate risk

Lotto24 holds its financial funds as sight deposits with three banks. As a consequence, there is no interest rate risk. Irrespective of this, there is a default risk for the bank deposits themselves.

26 OTHER DISCLOSURES

26.1 Executive Board

Petra von Strombeck is responsible for Corporate Strategy and Development, Marketing, Sales, the B2C (Business-to-Customer) and B2B (Business-to-Business) business fields, Investor Relations, Human Resources, and Organisation. Magnus von Zitzewitz is responsible for Legal Affairs and Regulation, Finance, Accounting, Taxes, Controlling, Compliance, Risk Management and Communication. In the course of the takeover offer of ZEAL Dr. Felix Menden will make use of his contractually agreed special termination right and will not assume his position as member of the Executive Board of Lotto24 AG. He had originally been scheduled to take office on 1 December 2018 and this was initially postponed to 1 May 2019 due to the takeover offer published by ZEAL on 19 November 2018. However, Dr. Menden will continue to be available to us as a consultant in the course of the business combination and will in particular accompany the future IT strategy, the implementation of the merger of the IT platforms, the restructuring of the IT organisation and other issues in connection with the IT systems. Petra von Strombeck remains responsible for IT Strategy, IT Systems, IT Processes and IT Operation, as well as Process and Innovation Management and the B2G (Business-to-Government) business field, on an interim basis.

The members of the Executive Board work on a full-time basis. Their remuneration in fiscal year 2018 comprised the following elements:

BENEFITS GRANTED

	Petra von Strombeck, CEO as of 01.07.2012			
in EUR thousand	**2018**	**2018 (min.) variable**	**2018 (max.) variable**	2017
Fixed remuneration	300	–	–	300
Benefits	–	–	–	–
Total (fixed)	**300**	**–**	**–**	**300**
One-year variable remuneration	340	–	400	132
Multi-year variable remuneration	345	–	500	227
Phantom shares 2014–2018 (4 years)[1)]	–	–	–	–
Phantom shares 2015–2019 (4 years)[1)]	–	–	–	–
Phantom shares 2016–2020 (4 years)[1)]	–	–	–	90
Phantom shares 2017–2021 (4 years)[1)]	90	–	150	54
Phantom shares 2018–2022 (4 years)[1)]	56	–	150	–
KPI-based remuneration (3 years)[2)]	–	–	–	–
Revenues 2017–2020 (3 years)[2)]	21	–	–	39
EBIT 2017–2020 (3 years)[2)]	-21	–	–	44
Revenues 2018–2021 (3 years)[2)]	99	–	100	–
EBIT 2018–2021 (3 years)[2)]	100	–	100	–
Total (variable)	**685**	**–**	**900**	**359**
Remuneration expense	–	–	–	–
Total remuneration	**985**	**–**	**900**	**659**

[1)] Fair value of phantom shares granted monthly, depending on the current share price
The nominal values of the granted phantom shares amount to EUR 50 thousand in each case
[2)] Fair value of KPI-based remuneration granted monthly
The nominal values of the granted KPI-based remuneration amount to EUR 50 thousand in each case

BENEFITS GRANTED

in EUR thousand	Magnus von Zitzewitz, Member of Executive Board as of 01.07.2012 2018	2018 (min.) variable	2018 (max.) variable	2017
Fixed remuneration	200	–	–	200
Benefits	–	–	–	–
Total (fixed)	**200**	**–**	**–**	**200**
One-year variable remuneration	215	–	260	126
Multi-year variable remuneration	223	–	325	146
Phantom shares 2014–2018 (4 years)[1)]	–	–	–	–
Phantom shares 2015–2019 (4 years)[1)]	–	–	–	–
Phantom shares 2016–2020 (4 years)[1)]	–	–	–	58
Phantom shares 2017–2021 (4 years)[1)]	58	–	97	35
Phantom shares 2018–2022 (4 years)[1)]	36	–	98	–
KPI-based remuneration (3 years)[2)]	–	–	–	–
Revenues 2017–2020 (3 years)[2)]	13	–	–	25
EBIT 2017–2020 (3 years)[2)]	-13	–	–	28
Revenues 2018–2021 (3 years)[2)]	64	–	65	–
EBIT 2018–2021 (3 years)[2)]	65	–	65	–
Total (variable)	**438**	**–**	**585**	**272**
Remuneration expense	–	–	–	–
Total remuneration	**638**	**–**	**585**	**472**

1) Fair value of phantom shares granted monthly, depending on the current share price
The nominal values of the granted phantom shares amount to EUR 32.5 thousand in each case
2) Fair value of KPI-based remuneration granted monthly
The nominal values of the granted KPI-based remuneration amount to EUR 32.5 thousand in each case

BENEFITS GRANTED

in EUR thousand	Kai Hannemann, Member of Executive Board from 01.07.2016 to 31.01.2018 2018	2018 (min.) variable	2018 (max.) variable	2017
Fixed remuneration	180	–	–	180
Benefits	–	–	–	–
Total (fixed)	**180**	**–**	**–**	**180**
One-year variable remuneration	–	–	–	112
Multi-year variable remuneration	–	–	–	90
Total (variable)	**–**	**–**	**–**	**202**
Remuneration expense	–	–	–	–
Total remuneration	**180**	**–**	**–**	**382**

BENEFITS RECEIVED

in EUR thousand	Petra von Strombeck, CEO as of 01.07.2012 2018	2017	Magnus von Zitzewitz, Member of Executive Board as of 01.07.2012 2018	2017	Kai Hannemann Member of Executive Board from 01.07.2016 to 31.01.2018 2018	2017
Fixed remuneration	300	300	200	200	180	180
Benefits	–	–	–	–	–	–
Total (fixed)	**300**	**300**	**200**	**200**	**180**	**180**
One-year variable remuneration	132	243	126	165	112	44
Multi-year variable remuneration	600	396	390	257	90	–
Phantom shares 2013–2017 (4 years)[1]	600	396	390	257	–	–
Phantom shares 2014–2018 (4 years)[1]	–	–	–	–	–	–
Phantom shares 2015–2019 (4 years)[1]	–	–	–	–	–	–
Phantom shares 2016–2020 (4 years)[1]	–	–	–	–	–	–
Phantom shares 2017–2021 (4 years)[1]	–	–	–	–	–	–
Phantom shares 2018–2022 (4 years)[1]	–	–	–	–	–	–
KPI-based remuneration (3 years)[2]	–	–	–	–	–	–
Revenues 2017–2020 (3 years)[2]	–	–	–	–	–	–
EBIT 2017–2020 (3 years)[2]	–	–	–	–	–	–
Revenues 2018–2021 (3 years)[2]	–	–	–	–	–	–
EBIT 2018–2021 (3 years)[2]	–	–	–	–	–	–
Total (variable)	**732**	**639**	**516**	**422**	**202**	**44**
Remuneration expense	–	–	–	–	–	–
Total remuneration	**1,032**	**939**	**716**	**622**	**382**	**224**

In addition to this table, we refer to the explanations in note 20 and the following disclosures regarding remuneration elements with a long-term incentive which depend on the performance of the Lotto24 share:

REMUNERATION 2018

in EUR thousand	Fixed remuneration	One-year variable remuneration	Multi-year variable remuneration	31.12.2018
Petra von Strombeck	300	340	345	985
Magnus von Zitzewitz	200	215	223	638
Kai Hannemann	180	–	–	180
Total	**680**	**555**	**568**	**1,803**

REMUNERATION 2017

in EUR thousand	Fixed remuneration	One-year variable remuneration	Multi-year variable remuneration	31.12.2017
Petra von Strombeck	300	132	227	659
Magnus von Zitzewitz	200	126	146	472
Kai Hannemann	180	112	90	382
Total	**680**	**370**	**463**	**1,513**

PHANTOM SHARES 2018

	Number of virtual shares (thousand units)	Fair value on grant date (EUR thousand))	Provision for share-based payment 31 December 2018 (EUR thousand)	– of which disclosed under short-term provisions	– of which disclosed under long-term provisions
Petra von Strombeck	118	644	1,235	600	635
Magnus von Zitzewitz	76	419	802	390	412
Kai Hannemann	–	–	–	–	–
Total	**194**	**1,062**	**2,037**	**990**	**1,047**

PHANTOM SHARES 2017

	Number of virtual shares (thousand units)	Fair value on grant date (EUR thousand))	Provision for share-based payment 31 December 2017 (EUR thousand)	– of which disclosed under short-term provisions	– of which disclosed under long-term provisions
Petra von Strombeck	164	687	1,556	586	970
Magnus von Zitzewitz	106	447	1,011	381	630
Kai Hannemann	–	–	–	–	–
Total	**270**	**1,134**	**2,567**	**967**	**1,600**

Benefits on termination of the Executive Board mandate

If a member of the Executive Board agrees to be reappointed on the basis of the contractual conditions offered, the member shall receive compensation in the amount of half the annual gross salary of the previous year if the Company is then culpable in failing to reappoint said member (for example in the case that the Supervisory Board offers the Executive Board member a reappointment but this fails to materialise). If an appointment to the Executive Board is effectively revoked, the Executive Board member has the right to claim compensation amounting to the remaining gross salaries, assuming 100% target attainment, but limited to two annual gross salaries.

In accordance with the adopted agreement dated 29 December 2017, Kai Hannemann, Member of the Executive Board until 31 January 2018, received basic remuneration for the year 2018 of EUR 180 thousand and multi-year variable remuneration for the year 2016 of EUR 90 thousand which became due on the date of his departure. There is no additional payment of multi-year remuneration for the years 2017 and 2018.

26.2 Supervisory Board

The following persons held seats on the Supervisory Board of Lotto24 AG in fiscal year 2018:

- Prof. Willi Berchtold, Managing Partner of CUATROB GmbH (Chairman of the Supervisory Board)
- Jens Schumann, merchant (Deputy Chairman)
- Thorsten Hehl, Managing Director, Günther Holding SE, Hamburg (regular member)

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

- Bundesdruckerei GmbH, Berlin (Chairman of the Supervisory Board)
- Actano AG, Zurich (Member of the Administrative Board)

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

- ZEAL Network SE, London, Great Britain (Member of the Supervisory Board)
- next media accelerator GmbH, Hamburg (Member of the Advisory Committee)
- Fyber N.V., Amsterdam, Netherlands (Member of the Raad van Commissarissen) (departed on 15.09.2018)
- Contentflow GmbH, Berlin (Member of the Advisory Committee since November 2018)
- LemonSwan GmbH, Hamburg (Member of the Advisory Committee since December 2018)

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

- ZEAL Network SE, London, Great Britain (Member of the Supervisory Board)
- Günther Direct Services GmbH, Bamberg (Member of the Advisory Committee)
- Langenscheidt Digital GmbH & Co. KG, Munich (Member of the Advisory Committee)
- Langenscheidt GmbH & Co. KG, Munich (Member of the Advisory Committee)
- Langenscheidt Management GmbH, Munich (Member of the Advisory Committee)

SUPERVISORY BOARD REMUNERATION

in EUR thousand	**2018**	2017
Prof. Willi Berchtold	63	63
Jens Schumann	38	38
Thorsten Hehl	25	25
Total	**125**	**125**

26.3 Employees

At the end of the reporting period on 31 December 2018, Lotto24 AG had 103 employees (full-time equivalents, excluding the two Executive Board members and student helpers, prior year: 89). 41% (prior year: 39%) of employees and 8 student helpers (prior year: 7) were employed in Marketing (including customer service) and 39% (prior year: 40%) in the IT department. The average headcount of the quarterly reporting dates was 96 employees in 2018 (prior year: 86).

26.4 Disclosures according to section 160 (1) No. 8 AktG

Pursuant to section 160 (1) no. 8 AktG, the disclosures on shareholdings in the Company sent to us pursuant to section 33 (1) WpHG and published by us pursuant to section 40 (1) WpHG are listed below. Please note that as a result of capital increases, the subscribed capital of Lotto24 AG has increased since the IPO on 2 July 2012 from EUR 13,973,904 to EUR 19,962,720 as of 27 September 2013, to EUR 21,958,991 as of 22 October 2014 and most recently to EUR 24,154,890 as of 16 July 2015. It has since been divided into 24,154,890 registered no-par value share.

»**Jens Schumann** informed us due to the acquisition/disposal of shares with voting rights (published on 12 July 2018, correction published on 13 July 2018) that his shareholding in Lotto24 AG, Strassenbahnring 11, 20251 Hamburg, Germany, amounted to 3.65% on 11 July 2018 (last notification: 5.07%), whereby all 882,536 of the total 24,154,890 voting rights in Lotto24 AG, corresponding to 3.65%, are attributable pursuant to section 22 WpHG.«

»On 2 July 2012, we received the following notification from **Günther Holding GmbH**, Hamburg, Germany: on 2 July 2012, the day on which shares of Lotto24 AG were first admitted for trading on an organised market, the share of voting rights in Lotto24 AG, Hamburg, Germany (WKN: LTT024 / ISIN: DE000LTT0243) held by Günther Holding GmbH amounted to 33.29% (corresponding to 4,652,528 voting rights). In accordance with section 22 (1) sentence 1 number 1, (3) WpHG, 33.29% (corresponding to 4,652,528 voting rights) are attributable to Günther Holding GmbH via the following subsidiaries of Günther Holding GmbH, whose share of voting rights in Lotto24 AG is equal to 3% or more: Othello Drei Beteiligungs GmbH & Co. KG, Hamburg, Germany (direct shareholder of Lotto24 AG), Othello Drei Beteiligungs-Management GmbH, Hamburg, Germany.«

»On 2 July 2012, we received the following notification from **Günther GmbH**, Bamberg, Germany: on 2 July 2012, the day on which shares of Lotto24 AG were first admitted for trading on an organised market, the share of voting rights in Lotto24 AG, Hamburg, Germany (WKN: LTT024 / ISIN: DE000LTT0243) held by Günther GmbH amounted to 33.29% (corresponding to 4,652,528 voting rights). In accordance with section 22 (1) sentence 1 number 1, (3) WpHG, 33.29% (corresponding to 4,652,528 voting rights) are attributable to Günther GmbH via the following subsidiaries of Günther GmbH, whose share of voting rights in Lotto24 AG is equal to 3% or more: Othello Drei Beteiligungs GmbH & Co. KG, Hamburg, Germany (direct shareholder of Lotto24 AG), Othello Drei Beteiligungs-Management GmbH, Hamburg, Germany, Günther Holding GmbH, Hamburg, Germany.«

»On 2 July 2012, we received the following notification from **Oliver Jaster**, Germany: on 2 July 2012, the day on which shares of Lotto24 AG were first admitted for trading on an organised market, the share of voting rights in Lotto24 AG, Hamburg, Germany, (WKN: LTT024 / ISIN: DE000LTT0243) held by Mr Oliver Jaster amounted to 33.29% (corresponding to 4,652,528 voting rights). In accordance with section 22 (1) sentence 1 number 1, (3) WpHG, 33.29% (corresponding to 4,652,528 voting rights) are attributable to Mr Oliver Jaster via the following subsidiaries of Mr Oliver Jaster, whose share of voting rights in Lotto24 AG is equal to 3% or more: Othello Drei Beteiligungs GmbH & Co. KG, Hamburg, Germany (direct shareholder of Lotto24 AG), Othello Drei Beteiligungs-Management GmbH, Hamburg, Germany, Günther Holding GmbH, Hamburg, Germany, Günther GmbH, Bamberg, Germany.«

»In accordance with section 21 (1) WpHG, **Othello Vier Beteiligungs GmbH & Co. KG**, Hamburg, Germany, informed us on 13 October 2014 that its shareholding in Lotto24 AG, Hamburg, Germany, exceeded the threshold of 3%, 5%, 10%, 15%, 20%, 25% and 30% of voting rights on 13 October 2014 and on this day amounted to 32.22% (corresponding to 6,432,182 voting rights).«

»In accordance with section 21 (1) WpHG, **Günther Holding Immobilien Management GmbH**, Hamburg, Germany, informed us on 13 October 2014 that its shareholding in Lotto24 AG, Hamburg, Germany, exceeded the threshold of 3%, 5%, 10%, 15%, 20%, 25% and 30% of voting rights on 13 October 2014 and on this day amounted to 32.22% (corresponding to 6,432,182 voting rights). 32.22% of voting rights (corresponding to 6,432,182 voting rights) are attributable to the company pursuant to section 22 (1), sentence 1, number 1 WpHG. Attributable voting rights are held via the following companies it controls, whose share of voting rights in Lotto24 AG is equal to 3% or more: Othello Vier Beteiligungs GmbH & Co. KG, Hamburg, Germany, Günther Consulting GmbH, Hamburg, Germany, Günther Holding Immobilien GmbH & Co. KG, Hamburg, Germany.**«**

»In accordance with section 21 (1) WpHG, **Günther Holding Immobilien GmbH & Co. KG**, Hamburg, Germany, informed us on 13 October 2014 that its shareholding in Lotto24 AG, Hamburg, Germany, exceeded the threshold of 3%, 5%, 10%, 15%, 20%, 25% and 30% of voting rights on 13 October 2014 and on this day amounted to 32.22% (corresponding to 6,432,182 voting rights). 32.22% of voting rights (corresponding to 6,432,182 voting rights) are attributable to the company pursuant to section 22 (1), sentence 1, number 1 WpHG. Attributable voting rights are held via the following companies it controls, whose share of voting rights in Lotto24 AG is equal to 3% or more: Othello Vier Beteiligungs GmbH & Co. KG, Hamburg, Germany, Günther Consulting GmbH, Hamburg, Germany.**«**

»In accordance with section 21 (1) WpHG, **Günther Consulting GmbH**, Hamburg, Germany, informed us on 13 October 2014 that its shareholding in Lotto24 AG, Hamburg, Germany, exceeded the threshold of 3%, 5%, 10%, 15%, 20%, 25% and 30% of voting rights on 13 October 2014 and on this day amounted to 32.22% (corresponding to 6,432,182 voting rights). 32.22% of voting rights (corresponding to 6,432,182 voting rights) are attributable to the company pursuant to section 22 (1), sentence 1, number 1 WpHG. Attributable voting rights are held via the following companies it controls, whose share of voting rights in Lotto24 AG is equal to 3% or more: Othello Vier Beteiligungs GmbH & Co. KG, Hamburg, Germany.**«**

»In accordance with section 21 (1) WpHG, **FIL Holdings (UK) Limited**, Hildenborough, Great Britain, informed us on 17 November 2015 that its shareholding in Lotto24 AG, Hamburg, Germany, exceeded the threshold of 3% of voting rights on 17 November 2015 and on this day amounted to 3.01% (corresponding to 727,153 voting rights). 3.01% (corresponding to 727,153 voting rights) are attributable to FIL Holdings (UK) Limited pursuant to section 22 (1), sentence 1, number 6 WpHG, in conjunction with sentence 2 WpHG. Attributable voting rights are held via the following shareholders, whose share of voting rights in Lotto24 AG is equal to 3% or more: Fidelity Funds SICAV.**«**

»In accordance with section 21 (1) WpHG, **FIL Investments International**, Hildenborough, Great Britain, informed us on 17 November 2015 that its shareholding in Lotto24 AG, Hamburg, Germany, exceeded the threshold of 3% of voting rights on 17 November 2015 and on this day amounted to 3.01% (corresponding to 727,153 voting rights). 3.01% (corresponding to 727,153 voting rights) are attributable to FIL Investments International pursuant to section 22 (1), sentence 1, number 6 WpHG. Attributable voting rights are held via the following shareholders, whose share of voting rights in Lotto24 AG is equal to 3% or more: Fidelity Funds SICAV.**«**

»FIL Limited, Pembroke, Bermuda, notified us due the acquisition/disposal of shares with voting rights (published on 19 October 2018) that its shareholding in Lotto24 AG, Strassenbahnring 11, 20251 Hamburg, Germany, amounted to 3.02% on 16 October 2018 (last notification: 2.86%), whereby all 730,479 of the total 24,154,890 voting rights in Lotto24 AG, corresponding to 3.02%, are attributable pursuant to section 22 WpHG. The full chain of subsidiaries, starting with the highest controlling person or highest controlling company, was stated as follows: FIL Limited, FIL Holdings (UK) Limited, FIL Investments International (voting rights: 3.02%).**«**

»**High Street Partners, Ltd.**, George Town, Cayman Islands, notified us due to the acquisition/disposal of shares with voting rights (published on 18 August 2017), that its shareholding in Lotto24 AG, Strassenbahnring 11, 20251 Hamburg, Germany, on 16 August 2017 amounted to 5.001% (last notification: 3.88%), whereby all 1,208,087 of the total 24,154,890 voting rights in Lotto24 AG, corresponding to 5.001%, are attributable pursuant to section 22 WpHG. Moreover, it was stated that the person subject to the notification obligation is neither controlled nor controls other companies with voting rights of the issuer requiring notification. It was also stated that Working Capital Management Pte. Ltd. is the investment manager of High Street Partners, Ltd..**«**

»**Kenneth Chan** notified us due to the acquisition/disposal of shares with voting rights (published on 3 January 2019) that his shareholding in Lotto24 AG, Strassenbahnring 11, 20251 Hamburg, Germany, amounted to 20.06% on 21 December 2018 (last notification: 15.09%), whereby all 4,846,110 of the total 24,154,890 voting rights in Lotto24 AG, corresponding to 20.06%, are attributable pursuant to section 22 WpHG. Moreover, it was stated that the voting rights of the following shareholder holding 3% or more of voting rights were attributable to the person subject to the notification obligation: UBS AG. The full chain of subsidiaries, starting with the highest controlling person or highest controlling company, was stated as follows: Kenneth Chan, Working Capital Management Pte. Ltd. (voting rights 20.06%, total 20.06%).**«**

»**UBS AG**, Zurich, Switzerland, notified us due to the acquisition/disposal of shares with voting rights (published on 6 December 2017), that its total shareholding in Lotto24 AG, Strassenbahnring 11, 20251 Hamburg, Germany, on 20 October 2014 amounted to 3.71%, whereby all 740,248 of the total 24,154,890 voting rights in Lotto24 AG, corresponding to 3.71%, are held directly. Moreover, it was stated that the person subject to the notification obligation is neither controlled nor controls other companies with voting rights of the issuer requiring notification.**«**

»**UBS Group AG**, Zurich, Switzerland, notified us due to the acquisition/disposal of shares with voting rights (published on 3 January 2019), that its total shareholding in Lotto24 AG, Strassenbahnring 11, 20251 Hamburg, Germany, on 21 December 2018 amounted to 20.06% (last notification: 15.06%), whereby all 4,846,110 of the total 24,154,890 voting rights in Lotto24 AG, corresponding to 20.06%, are attributable pursuant to section 22 WpHG. Moreover, it was stated that the voting rights of the following shareholder holding 3% or more of voting rights were attributable to the person subject to the notification obligation: UBS AG. The full chain of subsidiaries, starting with the highest controlling person or highest controlling company, was stated as follows: UBS Group AG, UBS AG (voting rights 20.06%, total 20.06%).**«**

26.5 Declaration of Conformity with the recommendations of the »German Corporate Governance Code« according to section 161 AktG

In accordance with section 161 AktG, the Supervisory Board and Executive Board have issued a Declaration of Conformity with the German Corporate Governance Code and made it permanently available to shareholders on page 15 et seq of this Annual Report and via the Company's website (Lotto24-ag.de).

26.6 Auditing costs

in EUR thousand	2018	2017
Auditing fees	129	80
thereof for previous years	6	–
Other audit-related fees	–	3
Tax consulting services	16	5
Other services	3	3
Total	**148**	**92**

Auditing fees include services in connection with the separate annual financial statements according to IFRS and the annual financial statements according to HGB. Other consulting services were mainly charged for the audit review of interim reports.

27 EVENTS AFTER 31 DECEMBER 2018

Takeover offer of ZEAL Network SE

On 19 November 2018, ZEAL Network SE, London, published a voluntary public takeover offer to all shareholders of Lotto24 AG. The offer contained the exchange of one new ZEAL share with a nominal value of EUR 1.00 as consideration for approximately 1.604 tendered shares of Lotto24. The exchange ratio thus corresponds to the ratio of the volume-weighted average prices of the shares of both companies over the three months prior to 19 November 2018.

Also on 19 November 2018, major shareholders in Lotto24 and ZEAL – who together hold around 65% of the shares and voting rights in Lotto24 – entered into irrevocable undertakings with ZEAL to accept the takeover offer.

The German Federal Cartel Office (Bundeskartellamt) cleared the combination on 18 December 2018.

Following several weeks of intensive negotiations, we also concluded a Business Combination Agreement (BCA) with ZEAL on 24 December 2018. This BCA sets out the framework for the transaction and the common objectives. In particular, it contains agreements on the future business cooperation after completion of the exchange offer, the future composition of the Executive Board of ZEAL and the Executive Board of Lotto24, as well as cooperation with regard to the implementation of the completion conditions under gambling law.

At an extraordinary general meeting of ZEAL on 18 January 2019, the resolutions concerning the takeover offer for Lotto24 shareholders were also adopted.

ZEAL published the statutory offer document on 31 January 2019.

On 8 February 2019, we received a supplement to our brokerage permit which allows us to also broker tickets to the state lottery companies via the domains Tipp24.de and Tipp24.com in future.

Finally, we issued our joint reasoned opinion of the Executive Board and Supervisory Board on 12 February 2019: it states that we regard the type and amount of the takeover consideration offered by ZEAL as adequate within the meaning of section 31 (1) of the German Securities Acquisition and Takeover Act (Wertpapiererwerbs- und Übernahmegesetz – WpÜG) and are of the opinion that the cooperation between Lotto24 and ZEAL offers benefits and opportunities for both companies. Against this background, we recommended that all Lotto24 shareholders accept the exchange offer. We must point out, however, that certain aspects may impact the value development of the Lotto24 shares on the one hand and the ZEAL shares on the other, and thus may alter the assessment of the adequacy of the offer consideration in a retrospective view. These aspects include, in particular, the agreements to be concluded between Lotto24 and ZEAL, whose terms and conditions still have to be agreed, a possible additional burden of ZEAL from value added tax payments, and various risks during the implementation of the cooperation. The above aspects and further aspects with a potential impact on value are described in detail in the joint reasoned opinion.

»Hamburg's Best Employers« accolade once again in 2019

On 17 January 2019, we were once again among the winners of the »Hamburg's Best Employers« competition with a top score of five stars. We had already received this special accolade for our excellent HR work in the participating years 2015 and 2017. The event is held annually by Hamburg's Helmut Schmidt University, »Roos Consult GmbH & Co. KG«, »Rock Antenne« and local newspaper »Hamburger Abendblatt«.

Advertising permit prolonged

On 27 February 2019, the German authority responsible for advertising standards, the District Government of Dusseldorf, prolonged our advertising permit for the third time. The validity of the advertising permit is always limited to a period of two years and applies until the German State Treaty on Games of Chance (»Glücksspielstaatsvertrag« – GlüStV) expires on 30 June 2021. After receiving the extension, we continue to be authorised to advertise the online marketing of state lotteries throughout Germany via the Internet and TV, thus driving the further expansion of Lotto24's customer base.

Dr. Felix Menden remains consultant of Lotto24

In the course of the takeover offer of ZEAL Dr. Felix Menden will make use of his contractually agreed special termination right and will not assume his position as member of the Executive Board of Lotto24 AG. He had originally been scheduled to take office on 1 December 2018 and this was initially postponed to 1 May 2019 due to the takeover offer published by ZEAL on 19 November 2018.

However, Dr. Menden will continue to be available to us as a consultant in the course of the business combination and will in particular accompany the future IT strategy, the implementation of the merger of the IT platforms, the restructuring of the IT organisation and other issues in connection with the IT systems.

German Financial Reporting Enforcement Panel (DPR) certifies error-free accounting for fiscal year 2017

As part of the audit announced on 26 September 2018 pursuant to Section 342b (2) sentence 3 no. 3 German GAAP (HGB) (spot check) of our annual financial statements and management report as of 31 December 2017, DPR informed us on 20 March 2019 that the relevant chamber of the Enforcement Panel had detected no errors in the accounts for fiscal year 2017. Among other things, the audit focused on the understanding of the business model and deferred tax assets on tax loss carryforwards.

Hamburg, 21 March 2019

The Executive Board

Petra von Strombeck
Chief Executive Officer

Magnus von Zitzewitz
Member of the Executive Board

AUDIT OPINION OF THE INDEPENDENT AUDITOR

on Lotto24 AG

Report on the audit of the separate financial statements according to Section 325 (2)a HGB and the management report

Audit opinions

We have audited the separate financial statements according to Section 325 (2)a HGB of Lotto24 AG, Hamburg – comprising the income statement from 1 January to 31 December 2018, the statement of comprehensive income from 1 January to 31 December 2018, the balance sheet as at 31 December 2018, the cash flow statement and the statement of changes in equity for the fiscal year 1 January to 31 December 2018, and the notes to the financial statements, including a summary of significant accounting policies. In addition, we have audited the management report of Lotto24 AG for the fiscal year from 1 January to 31 December 2018.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying separate financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German law pursuant to Section 325 (2)a HGB and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Company as at 31 December 2018, and of its financial performance for the financial year from 1 January to 31 December 2018, and
- the accompanying management report as a whole provides an appropriate view of the Company's position. In all material respects, this management report is consistent with the separate financial statements pursuant to Section 325 (2)a HGB, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

Pursuant to Section 322 (3) Sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the separate financial statements pursuant to Section 325 (2)a HGB and of the management report.

Basis for the audit opinions

We conducted our audit of the separate financial statements pursuant to Section 325 (2)a HGB and of the management report in accordance with Section 317 HGB and the EU Audit Regulation (No. 537/2014; hereinafter »EU Audit Regulation«) and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer – IDW). Our responsibilities under these requirements and principles are further described in the section »Auditor's responsibilities for the audit of the separate financial statements pursuant to Section 325 (2)a HGB and of the management report« of our auditor's report. We are independent of the Company in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) Letter (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the separate financial statements pursuant to Section 325 (2)a HGB and the management report.

Key audit matters in the audit of the separate financial statements according to Section 325 (2)a HGB

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the separate financial statements pursuant to Section 325 (2)a HGB for the fiscal year from 1 January to 31 December 2018. These matters were addressed in the context of our audit of the separate financial statements pursuant to Section 325 (2)a HGB as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matters of most significance in our audit were as follows:

1) Goodwill impairment test

Reasons for designation as key audit matter

Goodwill is recognised in the separate financial statements pursuant to Section 325 (2)a HGB of Lotto24 AG.

On 31 October of each year, the Company tests goodwill for impairment in order to determine whether there are grounds for a possible impairment loss. The test uses a valuation model based on the discounted cash flow method. The outcome of these valuations depends to a large extent on the assessment of future cash flows by the legal representatives and on the discount rate used, and is therefore subject to uncertainty.

In view of the discretionary scope available for the valuation and the underlying complexity of the valuation, the impairment test for goodwill was a particularly important audit matter.

Audit approach

We assessed the measurement policies specified in the internal measurement guidelines with regard to their compliance with the relevant IFRS.

We analysed the Company's budgets by comparing them with actual past results and the current business performance. We analysed the key assumptions of corporate planning for growth and business development by discussing these in detail with the legal representatives of Lotto24 AG. On this basis, we have judged their appropriateness.

The appropriateness of other key measurement assumptions, such as the discount rate and the growth rate, was examined with the aid of internal measurement specialists on the basis of an analysis of market indicators. As even small changes in the discount rate can have a significant impact on fair value, we verified the parameters used to determine the discount rate by comparing them with our own market information. We used sensitivity analyses to assess impairment risks in the event of changes in the material measurement assumptions. In addition, we verified the arithmetical accuracy of the measurement models.

With regard to the measurement of fair value, our audit procedures did not lead to any reservations.

Reference to related disclosures

Please refer to the information provided by the Company in the Notes in section »2.1. Significant Accounting Policies« under »2.1.4 Estimates and assumptions«, in section »2.1. Significant Accounting Policies« under »2.1.7 Impairment and write-backs of non-current non-financial assets« and in section »14 Goodwill«.

2) Revenue recognition from commission received for the brokering and transmitting of tickets or stakes to the state lottery companies

Reasons for designation as key audit matter

Revenues from commission which Lotto24 AG receives for the brokering and transmitting of tickets or stakes to the state lottery companies, as well as the additional fees paid by customers, less discounts, customer bonuses and rebates, are recognised in the separate financial statements pursuant to Section 325 (2)a HGB of Lotto24 AG. Due to the various contractual agreements regarding graduated rates for commissions, discounts, customer bonuses and rebates, we regard revenue recognition from commission as complex.

Revenue recognition is of material importance for the separate financial statements pursuant to Section 325 (2)a HGB as at 31 December 2018. In view of the material importance and complexity, we regard revenue recognition as a key audit matter.

Audit approach

As part of our audit, we evaluated the process used by the legal representatives of Lotto24 AG for the recognition of revenue and the identification of expected discounts, customer bonuses and rebates on the basis of individual business transactions, from the receipt of the order to its entry in the separate financial statements pursuant to Section 325 (2)a HGB, and tested the controls implemented in this process. In addition, we sampled whether the amount of the contractually agreed graduated commissions was recognised in sales revenues on an accrual basis. Among other things, we examined the sales revenues of the fiscal year 2018 regarding their correlation with the associated trade receivables in order to identify any discrepancies in the development of sales revenues. In addition, we analysed the correlation between revenues of the fiscal year 2018 and the associated billings, taking into account the jackpot trend, in order to detect any abnormalities.

With regard to the recognition of revenues from commissions for the brokering and transmitting of tickets or stakes to the state lottery companies, our audit procedures did not lead to any reservations.

Reference to related disclosures

Please refer to the information provided by the Company in the Notes in section »2.1. Significant Accounting Policies« under »2.1.14 Revenues« and in section »5 Revenues« for details on the accounting and valuation methods applied.

3) Accounting for deferred tax assets

Reasons for designation as key audit matter

As at 31 December 2018, there are differences between the IFRS and tax balance sheets of Lotto24 AG arising from the different valuation of goodwill attributable to varying useful lives. Deferred tax assets are recognised for these items. In addition, deferred tax assets are capitalised for tax loss carryforwards, as the Company expects a positive tax result within a planning horizon of five years from the fiscal year 2019 against which the as yet unused tax loss carryforwards can be offset, taking into account minimum taxation. The calculation of deferred tax items requires that the legal representatives of Lotto24 AG exercise considerable discretion in assessing tax items, estimating the tax risks and planning the taxable results.

In view of the material importance, the complexity and the discretionary assumptions of the legal representatives, we regard the calculation of recognised deferred tax assets as a key audit matter.

Audit approach

As part of our audit, we analysed the process used by the legal representatives of Lotto24 AG, as well as the accounting and measurement policies for calculating deferred income taxes, and gained an understanding of the process steps and the implemented internal controls.

We assessed the measurement policies specified in the internal measurement guidelines with regard to their compatibility with the relevant IFRSs, as well as their implementation by the legal representatives of Lotto24 AG.

In order to judge the tax assessment of the underlying facts by the legal representatives of Lotto24 AG, we consulted with our internal tax experts. In doing so, we also took into account correspondence with the relevant tax authorities as well as the current state of ongoing legal appeal and court proceedings. On the basis of our knowledge and experience of the current application of the relevant legislation by public authorities and courts, we examined the appropriateness of the material valuation assumptions used to determine deferred taxes. We analysed the underlying company budgets by comparing them with actual past results and current business performance. We assessed the key assumptions of corporate planning for growth and business development by discussing these in detail with the legal representatives of Lotto24 AG. On this basis, we have judged their appropriateness.

We also assessed the disclosures on deferred taxes made in the Notes of Lotto24 AG.

With regard to accounting for deferred tax assets, our audit procedures did not lead to any reservations.

Reference to related disclosures

Please refer to the information provided by the Company in the Notes in section »2.1. Significant Accounting Policies« under »2.1.4 Estimates and assumptions«, in section »2.1. Significant Accounting Policies« under »2.1.13 Income taxes« and in section »10 Income taxes« for details on the accounting and valuation methods applied.

Other information

The Supervisory Board is responsible for the Supervisory Board Report. All other information is the responsibility of the legal representatives. The other information comprises the Declaration on Company Management, which is published outside the management report, and the following information received up to the date of this audit opinion

- the chapter »Statement of responsibility of the legal representatives« of the Annual Report 2018
- the chapter »Corporate Governance Report« of the Annual Report 2018

as well as information gained in the other parts of the Annual Report 2018, with the exception of the separate financial statements pursuant to Section 325 (2)a HGB, the management report and our accompanying audit opinion.

Our audit opinions on the separate financial statements pursuant to Section 325 (2)a HGB and on the management report do not cover the other information, and consequently we do not express an audit opinion nor any other form of audit conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

– is materially inconsistent with the separate financial statements pursuant to Section 325 (2)a HGB, the Group management report or our knowledge obtained during the audit, or
– otherwise appears to be materially misstated.

Responsibility of the legal representatives and the Supervisory Board for the separate financial statements pursuant to Section 325 (2)a HGB and the management report

The legal representatives are responsible for the preparation of the separate financial statements pursuant to Section 325 (2)a HGB that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 325 (2)a HGB and that the separate financial statements pursuant to Section 325 (2)a HGB, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Company. In addition, the legal representatives are responsible for such internal control as they have determined necessary to enable the preparation of separate financial statements pursuant to Section 325 (2)a HGB that are free from material misstatement, whether due to fraud or error.

In preparing the separate financial statements pursuant to Section 325 (2)a HGB, the legal representatives are responsible for assessing the Company's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Company or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the legal representatives are responsible for the preparation of the management report that, as a whole, provides an appropriate view of the Company's position and is, in all material respects, consistent with the separate financial statements pursuant to Section 325 (2)a HGB, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the legal representatives are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report.

The Supervisory Board is responsible for monitoring the Company's accounting process for the preparation of the separate financial statements pursuant to Section 325 (2)a HGB and the management report.

Responsibility of the auditor for the auditing of the separate financial statements pursuant to Section 325 (2)a HGB and the management report

Our objective is to obtain reasonable assurance about whether the separate financial statements pursuant to Section 325 (2)a HGB as a whole are free from material misstatement, whether due to fraud or error, and whether the management report as a whole provides an appropriate view of the Company's position and, in all material respects, is consistent with the separate financial statements pursuant to Section 325 (2)a HGB and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the separate financial statements pursuant to Section 325 (2)a HGB and the management report.

Reasonable assurance is a high level of safety, but is no guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation, in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) and supplementary compliance with the ISAs, will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements pursuant to Section 325 (2)a HGB and this management report.

We exercise professional judgement and maintain professional scepticism throughout the audit.
In addition, we

- identify and assess the risks of material misstatement of the separate financial statements pursuant to Section 325 (2)a HGB and of the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls
- obtain an understanding of internal control relevant to the audit of the separate financial statements pursuant to Section 325 (2)a HGB and of arrangements and measures (systems) relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems of the Company
- evaluate the appropriateness of accounting policies used by the legal representatives and the reasonableness of estimates made by the legal representatives and related disclosures
- conclude on the appropriateness of the legal representatives' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the separate financial statements pursuant to Section 325 (2)a HGB and in the management report or, if such disclosures are inadequate, to modify our respective audit opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to be able to continue as a going concern.
- evaluate the overall presentation, structure and content of the separate financial statements pursuant to Section 325 (2)a HGB, including the disclosures, and whether the separate financial statements pursuant to Section 325 (2)a HGB present the underlying transactions and events in a manner that the separate financial statements pursuant to Section 325 (2)a HGB give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 325 (2)a HGB
- evaluate the consistency of the management report with the separate financial statements pursuant to Section 325 (2)a HGB, its conformity with German law, and the view of the Company's position it provides
- Perform audit procedures on the prospective information presented by the legal representatives in the management report. On the basis of sufficient appropriate audit evidence, we evaluate in particular the significant assumptions used by the legal representatives as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control system that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate financial statements pursuant to Section 325 (2)a HGB for the current reporting period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other legal and regulatory requirements

Further information pursuant to Article 10 of the EU Audit Regulation

We were elected as auditor by the Annual General Meeting on 4 May 2018. We were commissioned by the Supervisory Board on 7 December 2018. We have been the auditor of Lotto24 AG without interruption since the fiscal year 2012.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the Supervisory Board pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

German Public Auditor responsible for the audit

The German Public Auditor responsible for the audit is Jan Brorhilker.

Hamburg, 21 March 2019

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Brorhilker Auditor	Hauschildt Auditor

RESPONSIBILITY STATEMENT

»To the best of our knowledge, and in accordance with the applicable reporting principles, the separate financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company, and the management report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal opportunities and risks associated with the expected development of the Company in the remaining fiscal year.«

Hamburg, 21 March 2019

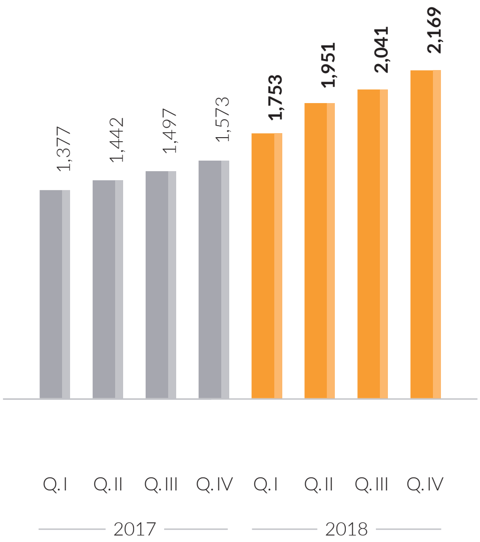
The Executive Board

Petra von Strombeck Chief Executive Officer	**Magnus von Zitzewitz** Member of the Executive Board

Quarterly trend

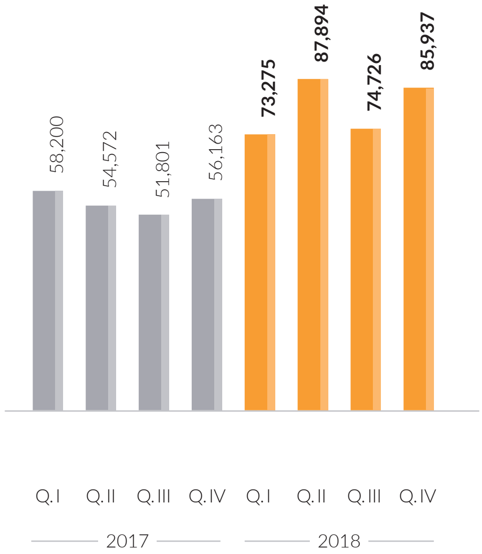
REGISTERED CUSTOMERS

in thousand (accumulated)



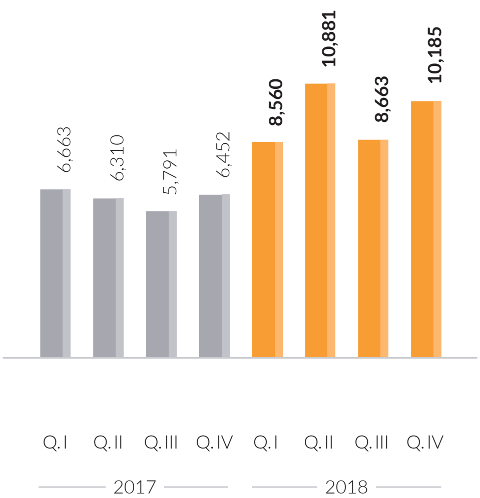
BILLINGS

in EUR thousand



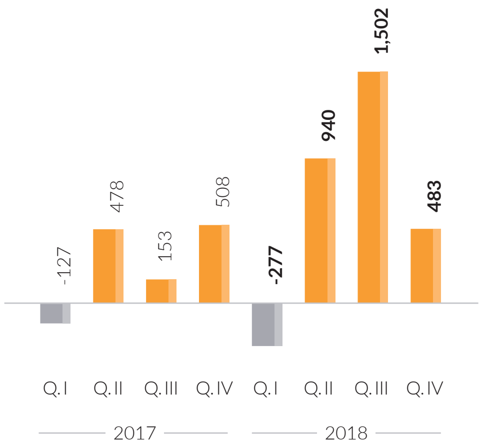
REVENUES

in EUR thousand



EBIT

in EUR thousand



KEY FIGURES

in EUR thousand	**2018**	Q. IV 2018	Q.III 2018	Q. II 2018	Q. I 2018	2017	Q. IV 2017
Billings	321,832	85,937	74,726	87,894	73,275	220,736	56,163
Stakes to be remitted (less revenues)	-283,543	-75,752	-66,064	-77,013	-64,715	-195,520	-49,711
Revenues	**38,289**	**10,185**	**8,663**	**10,881**	**8,560**	**25,216**	**6,452**
Other operating income	246	21	65	82	77	38	17
Total performance	**38,535**	**10,206**	**8,728**	**10,963**	**8,637**	**25,254**	**6,470**
Personnel expenses	-9,048	-2,705	-2,190	-2,230	-1,923	-8,873	-1,914
Impairment loss for financial assets [1)]	-599	-164	-122	-223	-90	-511	-172
Amortisation/depreciation on intangible assets and property, plant and equipment	-1,202	-322	-287	-291	-303	-1,035	-252
Other operating expenses	-25,038	-6,532	-4,628	-7,279	-6,599	-13,823	-3,623
Result from operating activities (EBIT)	**2,648**	**483**	**1,502**	**940**	**-277**	**1,013**	**508**
Revenues from financial activities	0	–	–	–	0	10	–
Expenses from financial activities	-118	-13	-39	-37	-29	-303	-51
Financial result	**-118**	**-13**	**-39**	**-37**	**-29**	**-293**	**-51**
Net profit before taxes	**2,529**	**470**	**1,462**	**903**	**-306**	**720**	**457**
Income taxes	5,168	-601	4,064	2,727	-1,023	1,813	754
Net profit	**7,697**	**-130**	**5,526**	**3,630**	**-1,329**	**2,533**	**1,210**

Breakdown of other operating expenses							
Marketing expenses	-15,423	-3,455	-2,317	-5,069	-4,582	-7,890	-2,132
Direct operating expenses [1)]	-3,015	-756	-739	-817	-703	-2,009	-424
Indirect operating expenses	-6,599	-2,320	-1,572	-1,393	-1,314	-3,924	-1,067
Other operating expenses	**-25,038**	**-6,532**	**-4,628**	**-7,279**	**-6,599**	**-13,823**	**-3,623**

1) Prior-year figures adjusted due to IAS 1 (82) (ba)

PUBLISHED BY

Lotto24 AG
Strassenbahnring 11
20251 Hamburg

Germany

Telephone +49 (0) 40.82 22 39-0
Telefax +49 (0) 40.82 22 39-70
Lotto24-ag.de

CONCEPT, TEXT & DESIGN

Impacct Communication GmbH
www.impacct.de

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FINANCIAL CALENDAR

9 May 2019	Quarterly statement as of 31 March 2019
4 June 2019	Annual General Meeting
14 August 2019	Half-yearly financial report as of 30 June 2019
13 November 2019	Quarterly statement as of 30 September 2019

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