



Annual Report 2017

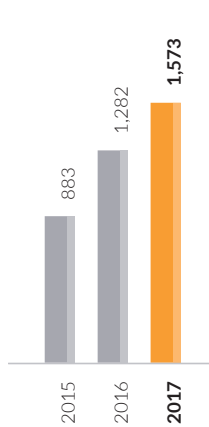
Our success model: fun, luck and winning in the online lottery business

Break-even reached

Lotto24 is Germany's No. 1 online provider of state-licensed lottery products. 2017 was an exciting year for us: we continued to grow and not only passed the 1.5 million customer mark but also reached break-even for the first time. By steadily expanding our product portfolio and enhancing the quality and user friendliness of our product range, we were able to strengthen our leading position in the growing German market for online lotteries. We now look forward to continuing the Lotto24 success story in 2018.

REGISTERED CUSTOMERS

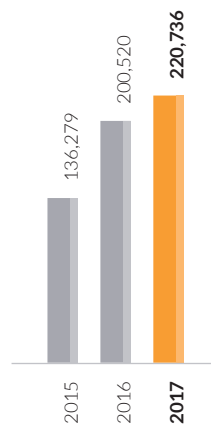
in thousand (accumulated)



+23%

BILLINGS

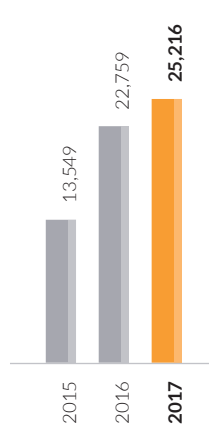
in EUR thousand



+10%

REVENUES

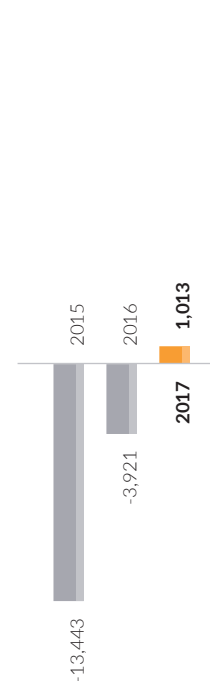
in EUR thousand



+11%

EBIT

in EUR thousand



- Break-even reached
- Challenging environment with exceptionally weak jackpots
- More than 1.5 million customers
- Product portfolio and user-friendliness enhanced
- Market leader with 32% market share
- Our first apprentices





ON TRACK

Petra von Strombeck, Magnus von Zitzewitz

FOREWORD

»Expand market share,
continue profitable growth«

Ladies and gentlemen,

2017 was an exciting year for Lotto24 AG: we continued to grow and not only passed the 1.5 million customer mark but also reached break-even for the first time. By steadily expanding our product portfolio and enhancing the quality and user friendliness of our product range, we were able to strengthen our leading position in the growing German market for online lotteries. We now look forward to continuing the Lotto24 success story in 2018.

Full-year targets 2017 achieved

Despite the exceptionally weak jackpot situation in the second half of 2017 – especially compared to the high jackpots of the previous year – and stronger competition, we raised billings by 10.1% to EUR 220.7 million in 2017 (prior year: EUR 200.5 million) and revenues by 10.8% to EUR 25.2 million (prior year: EUR 22.8 million). By contrast, billings and revenues in the fourth quarter of 2017 fell by 4.8% to EUR 56.2 million (prior year: EUR 59.0 million) and by 9.7% to EUR 6.5 million (prior year: EUR 7.1 million). Despite a corresponding decline in the fourth quarter from 12.1% to 11.5%, the gross margin in 2017 as a whole improved to 11.4% (prior year: 11.3%).

With 291 thousand new customers in fiscal year 2017 (prior year: 399 thousand) – of which just 75 thousand in the fourth quarter (prior year: 113 thousand) due to the weak jackpot trend – the total number of customers registered with Lotto24 rose by 22.7% to 1,573 thousand (prior year: 1,282 thousand). Thanks to efficient marketing activities – which we adapt to the prevailing jackpot trend – we were able to keep cost per lead (CPL) on a par with the previous year at EUR 27.32 in 2017 (prior year: EUR 27.13), despite rising to EUR 29.40 in the fourth quarter (prior year: EUR 26.85).

The encouraging revenue trend and lower marketing expenses of EUR 7.9 million (prior year: EUR 10.8 million) had a particularly positive impact on EBIT and net profit: at EUR 1.0 million (prior year: EUR -3.9 million) and EUR 2.5 million (prior year: EUR -2.3 million) respectively, both KPIs improved significantly and passed break-even point for the first time.

»BREAK-EVEN IS
AN IMPORTANT
MILESTONE FOR US.«

Magnus von Zitzewitz

New to Lotto24: »Deutsche Weihnachtslotterie«

We also made further progress with regard to our products: in addition to ongoing enhancements to our customer service and user friendliness, we rolled out a new product in November – »Deutsche Weihnachtslotterie«, which was held for the first time in 2017. This social lottery operated by the German »Navidad Foundation« 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. We attach great importance to corporate social responsibility: in 2017, our brokerage activities provided around EUR 84 million for important social and community projects.

»THE ONLINE
MARKET POTENTIAL IS
STILL ENORMEOUS.«

Petra von Strombeck

Market share expanded further

In fiscal year 2017, we expanded our share of the German online lottery market to 32% (prior year: 31%). As a result, we remain the largest online provider of state-licensed lotteries in Germany by far. According to information of the German Association of State Lottery Companies (»Deutscher Lotto- und Totoblock, DLTB«) and the

German Lottery Association (»Deutscher Lottoverband«), total DLTB revenues fell by 3.6% to around EUR 7.1 billion in 2017 (prior year: EUR 7.3 billion). At the same time, stakes generated online by the state companies and private lottery brokers with permits rose by 7.6% to around EUR 700 million (2016: EUR 650 million). This corresponds to an online share of around 10% (prior year: 9%).

2018: Keep on growing profitably

In 2018, we plan to increase our marketing investment in order to extend our market leadership as an online provider of state-licensed lotteries. We expect to raise billings by 15% to 20% with a growing number of new customers and increased CPL. Moreover, we anticipate a slight year-on-year improvement in gross margin. Depending on external conditions – especially the jackpot trend – and marketing investments to attract new customers, both EBIT and net profit will continue to be above the break-even point.

Many thanks

Ladies and gentlemen, on the following pages we would like to give you a small insight into our work environment, of which we are rightly proud. After all, a major reason for the success of Lotto24 is our team and the exceptional working climate – built on trust, mutual respect, enjoyment of our work and professionalism. This spirit translates into high staff satisfaction, motivation and commitment. This is also demonstrated by our employer ratings on portals like »kununu« or the award »Hamburg's Best Employers«. We would like to take this opportunity to thank our employees for everything we have achieved so far, as well as for their loyalty and tireless efforts.

Dear shareholders, we also thank you for trust – and are confident that Lotto24 will continue its upward trajectory in future.

Hamburg, 22 March 2018



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 eCommerce 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.

New work @lotto24

Motivated employees are the key to success and our most valuable asset – especially in such a technology-driven business. One of our most important challenges is therefore to inspire people to work for Lotto24. We do this by providing a positive and highly flexible work environment with lots of fascinating opportunities – from apprenticeships to the »company e-bike«. Work should be fun and rewarding.

6 winners for Lotto24.



MODERN MANAGEMENT

We cultivate an atmosphere of mutual respect and trust. We measure our performance according to clearly defined management principles and ask for feedback from our employees.



AGILE ORGANISATION

We are agile in both word and deed. In other words, we use the most efficient processes to ensure fast and flexible project success. We constantly question our actions with the aim of continuously improving structures and processes.



OPEN & TRANSPARENT COMMUNICATION

We attach great importance to trust and communicate key figures and events transparently so that staff are on board at all times – a key prerequisite for good work.



CROSS-TEAM COLLABORATION

In our experience, the best ideas and freshest insights come from mixed groups. That's why we like to regularly change teams around and take a cross-disciplinary approach to major projects.



DIVERSITY IN PRACTICE

We are a diverse mix of colleagues with different professions, nationalities, temperaments and inclinations – all pulling together for the good of the Company. A multifaceted environment in which work is fun.



WORK-LIFE BALANCE

With our flexible working time models and numerous other measures, we actively promote a healthy work-life balance – one of the keys to business success and job satisfaction.



FUN

We also know how to party...

A »typical« week at Lotto24...

MONDAY

BREAKFAST
E-BIKE TESTING



TUESDAY

DESIGN MEETING
NEW CONFERENCE ROOMS

WEDNESDAY

ACTIVE
LUNCH BREAK



THURSDAY

LUNCH LOTTERY

FRIDAY



SWEETS DAY ☀️

SPIRIT

2



3



5



- 1 Monday breakfast** We start the week by having breakfast together in the kitchen. At this »Monday Morning Meeting«, the Board informs staff about the latest developments.
- 2 Company e-bike** Our e-bike test day is an opportunity for staff to try out and lease their dream bike – a genuine alternative to the classic company car and an important contribution to protecting the environment and reducing parking problems.
- 3 Design your own meeting room**
In early 2018, we expanded our office space – and tapped into the creativity of our staff by offering them the possibility to help design our new meeting rooms.
- 4 Active lunch break** Every Wednesday there's an active lunch break at Lotto24: a trained sports physiotherapist comes to us and offers special training on how to deal with typical office problems – such as sitting all day.
- 5 Lunch lottery** Every week, we choose four employees at random – often colleagues who otherwise rarely meet – and invite them to have lunch together. A great way to create networks across departments and teams.
- 6 Sweet conclusion** Before the last loose ends are tied up, we like to meet every Friday afternoon at the sweetie tray – to finish the week on a happy note and celebrate the coming weekend. Always good to get there early...



Heterogeneous, interdisciplinary teams develop the best ideas – and we give them plenty of space.

»FANTASTIC ATMOSPHERE,
GREAT TEAM, PLENTY
OF SCOPE TO MAKE
DECISIONS...«

source: kununu



A healthy work-life balance is important to us – everyone at Lotto24 is largely free to choose their working hours themselves.



»RELAXED BUT HIGHLY PROFESSIONAL WORK ATMOSPHERE...«

source: kununu

As an employer, we believe it's our task to create an environment in which people like to work. We spend a lot of time at the office, so working should be fun.



TEAM



Whether it's a short break outside in the sun, a delicious coffee or a game in our »Mario Kart Room« – fun is an important part of our corporate culture.





KNOW-HOW

We invest in our employees because we want to keep them at the Company. We reward their performance and let them share in the Company's success. We promote lifelong learning and create an exceptional work environment in order to retain talent and reduce staff turnover.

Targeted support and development. We constantly develop the skills of our employees by means of appraisal meetings, a clearly defined competence model, 180-degree feedback, the identification of development fields and the agreement of measures.

Challenging tasks. Everyone at Lotto24 has the freedom to shape, question and change. All our employees are specialists in their particular field. What's important for us is: never stand still.

New at Lotto24: apprentices. In August 2017, four new apprentices began their training at Lotto24: this is the first time we've offered such a vocational training programme (IT Specialist with a Major in Systems Integration and Application Development). We aim to be able to meet our future needs for skilled staff in part via our systematic youth training programme.

Success is a team thing

We're delighted that our employees are so happy to work for us. And we're doing everything we can to make sure it stays that way – because we need the best team for success. The Lotto24 spirit generates highly satisfied, motivated and dedicated employees. A fact which is demonstrated by the good reviews we receive from our staff.

Award-winning employer. On kununu – the largest German-language platform for employer ratings – we regularly receive good scores (22 March 2018: 4.54 out of 5.00 possible points) and lie well above the industry average (3.67) and the overall kununu average (3.25). In September 2017, we had a high response rate for our annual staff survey, which once again confirmed that 95% of our employees would recommend Lotto24 AG to others. In 2017, Lotto24 was among the winners again in the contest »Hamburg's Best Employers« with a maximum five-star rating.

4.54
★★★★☆
EMPLOYEES
RATING
(KUNUNU)

95%
EMPLOYEE
RECOMMENDATION



»HAMBURG'S BEST EMPLOYER –
GREAT COLLEAGUES AND BOSSES,
FLAT HIERARCHIES...«

source: kununu



01 |

THE LOTTO24 SHARE

The Lotto24 share performed strongly once again in 2017: with growth of 34% over the year, it outperformed the benchmark index SDAX, which grew by just 23%.

+34%

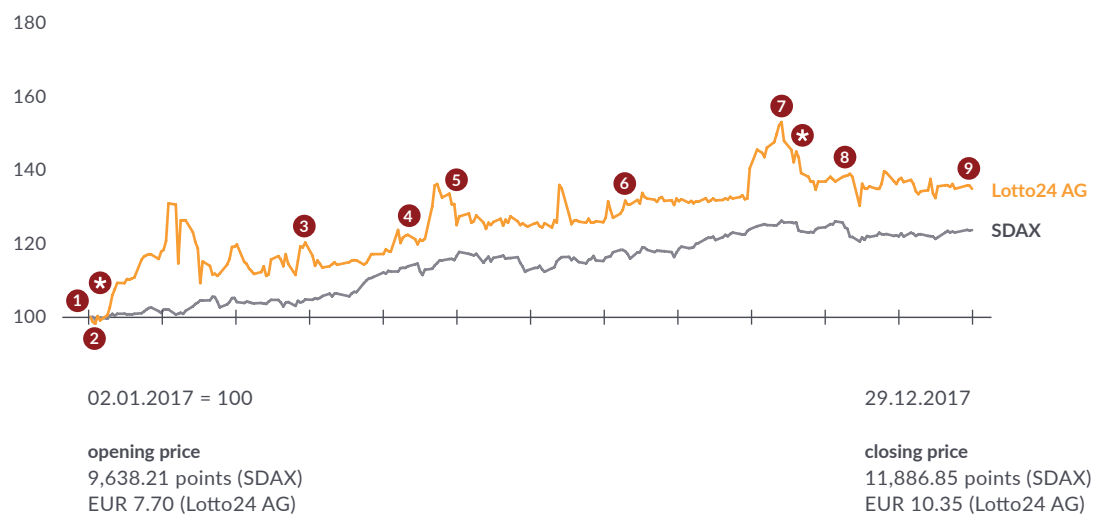
Stock markets 2017

2017 was a year of superlatives for investors – there were new all-time highs on Wall Street, as well as for the Dax and many emerging market indices. But while Donald Trump was being celebrated on America's stock exchanges, investors had mixed feelings about the situation in Europe: on the one hand, there was the negative impact of ongoing Brexit negotiations, and on the other, there were increasing doubts about the prospects for company earnings in the second half of 2017. Although the elections in France and Germany led to lively discussions, they did not ultimately have a major bearing on stock market sentiment. Over the course of the year, the DAX and our benchmark index SDAX rose by 11% and 23%, respectively.

Further strong performance by Lotto24 share

The Lotto24 share began the year at EUR 7.70 and reached its year-low of EUR 7.56 on 4 January. Following an ad-hoc announcement on the publication of very good preliminary figures for 2016 on 10 January, the share price rose to EUR 7.90. In early February, it passed the 10 euro mark for the first time and thus clearly outperformed the benchmark index SDAX – even though it initially fell back to EUR 9.14 on the day our annual report was published. On 10 May – the day of the interim statement on the first quarter of 2017 – it reached EUR 9.34, on 30 May – the day of the Annual General Meeting – EUR 10.03, and on publication of the half-yearly financial report on 9 August EUR 10.11. The Lotto24 share reached its year-high of EUR 11.73 on 12 October. The exceptionally weak jackpot trend in the second half of the year that led us to downgrade our guidance on 19 October in an ad-hoc announcement, as well as the interim statement on the third quarter of 2017 initially dampened sentiment, leading to share prices of EUR 11.01 and EUR 10.63. All in all, however, the Lotto24 share finished its successful stock exchange year 2017 at EUR 10.35 – up 34% on the beginning of the year.

PERFORMANCE OF THE LOTTO24 SHARE



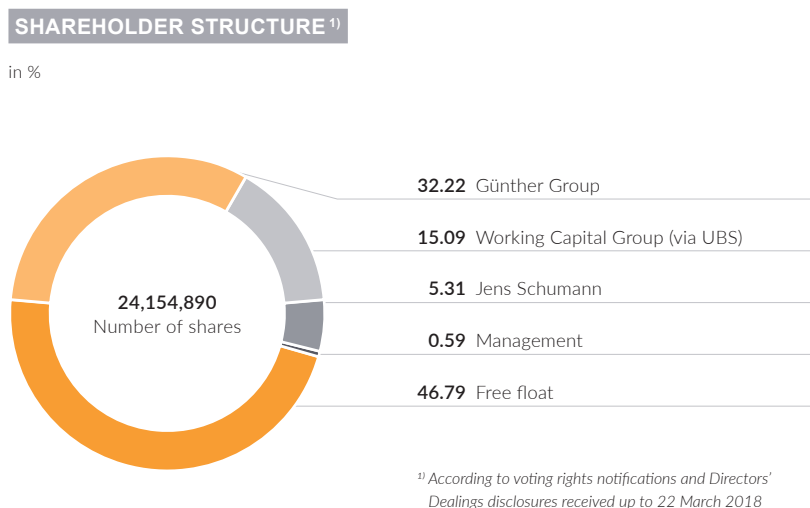
- ① 02.01. Opening price ② 04.01. Lowest price ③ 30.03. Publication Annual Report 2016
- ④ 10.05. Publication quarterly statement Q. I ⑤ 30.05. Annual General Meeting 2017
- ⑥ 09.08. Publication half-yearly financial report ⑦ 12.10. Highest price
- ⑧ 08.11. Publication quarterly statement Q. III ⑨ 29.12. Closing price * Ad-hoc news

Fifth Annual General Meeting

Our fifth Annual General Meeting as a listed company was held in Hamburg on 30 May 2017. With a total presence of around 60% of voting capital, the shareholders in attendance once again adopted all items on the agenda with large majorities. In addition to 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, this year's agenda included the election of the Supervisory Board in which all serving Supervisory Board members stood for re-election and were duly voted into office.

Shareholder structure

As of 31 December 2017, 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 22 March 2018:



Dividend

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

Conferences and roadshows

In fiscal year 2017, 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 and Munich.

Analysts

In 2017, 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

	2017	2016
Number of shares on reporting day	24,154,890	24,154,890
Highest price (in EUR)	11.73	7.38
Lowest price (in EUR)	7.56	4.05
Share price on reporting day (in EUR)	10.35	7.34
Market capitalisation on reporting day (in EUR million)	250.0	177.3
Average daily trading volume (number)	20,807	14,851
Earnings per share (in EUR)	0.10	-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 acc. 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 2017, they have complied with all recommendations of the »Government Commission on the German Corporate Governance Code« in the version of 5 May 2015, published in the official part of the Federal Gazette on 12 June 2015, and, since its publication in the official part of the Federal Gazette on 24 April 2017, in the version of 7 February 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 2 (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 2018

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 Commercial Code (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 raising the sustainable 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, Accounting, Taxes, Controlling, Compliance, Risk Management and Communication. Until January 2018, Kai Hannemann served on the Executive Board and was 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, responsibility for which has since been assumed by Petra von Strombeck 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 case of a tie in voting, the Chairman of the Supervisory Board has the casting vote in the case of renewed voting 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 meets at least twice in each calendar half-year. 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 to extend the validity of the above mentioned targets – which have all been met since fiscal year 2016 – until the end of fiscal year 2018.

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/com-pany of re- porting party	Status	Nature of transaction	Date, place	Number	Share price in EUR	Volume in EUR
Jens Schumann	Member of Supervisory Board	Disposal	24.11.2017, over-the- counter	300,000	10.65	3,195,000.00

Disclosure on shareholdings of Executive Bodies

According to information provided in January 2018, Mr Schumann held 1,282,536 shares (5.31%), 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 2017.

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REPORT OF THE SUPERVISORY BOARD

In 2017, the Supervisory Board of Lotto24 AG once again advised and monitored the Executive Board in the execution of its management duties.



Prof. Willi Berchtold

2017

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.

A total of five face-to-face meetings and a further six conference calls were held in fiscal year 2017. 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.

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 development of a company-specific, value-oriented concept for measuring the profitability and value growth of Lotto24 AG,
- 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 2017 and the setting of targets for the fiscal year 2018.

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 acc. 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.

In addition to their membership of the Supervisory Board of our Company, Jens Schumann and Thorsten Hehl also have seats on the Supervisory Board of ZEAL Network SE, London, Great Britain. In the fiscal year 2017, there were no conflicts of interest arising from this matter or any other matter between the mandate of individual Supervisory Board members and their other activities.

According to our examinations, the Supervisory Board has a sufficient number of independent members. In accordance with Section 100 (5) AktG, Prof. Willi Berchtold was appointed as a financial expert.

Auditing

The annual financial statements for fiscal 2017 of Lotto24 AG, as prepared by the Executive Board in accordance with the German Commercial Code (HGB), and the separate financial statements of Lotto24 AG and respective management report for fiscal 2017 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. We inspected these and discussed them in detail at the balance sheet meeting of the Supervisory Board on 22 March 2018, which was also attended by the auditor. Prior to adoption, the auditor reported on the chief results of the final audit and informed the Supervisory Board that there were no significant weaknesses in the internal control system. The Executive Board explained the annual financial statements of Lotto24 AG. The auditor also reported on the object, type, and scope of the audit, as well as the focus areas and the auditing fees. 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 2017. 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.

In December of the past fiscal year, Kai Hannemann (member of the Executive Board) approached the Supervisory Board with a personal request to step down from his position on the Executive Board. We regret this decision. The Supervisory Board agreed to the related request to prematurely terminate his service agreement. Over the past few years, Kai Hannemann played a major role in making Lotto24 AG an industry leader in the field of IT. We thank him for his work and wish him all the best.

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, 22 March 2018



Prof. Willi Berchtold
Chairman of the Supervisory Board

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MANAGEMENT REPORT

Building on our long-standing management and sector experience, as well as our attractive range of products and services in the growing online lottery market, we have positioned Lotto24 AG as the clear market leader. Our KPIs were once again very positive in 2017. We are well equipped to expand our market leadership.

BREAK—EVEN

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

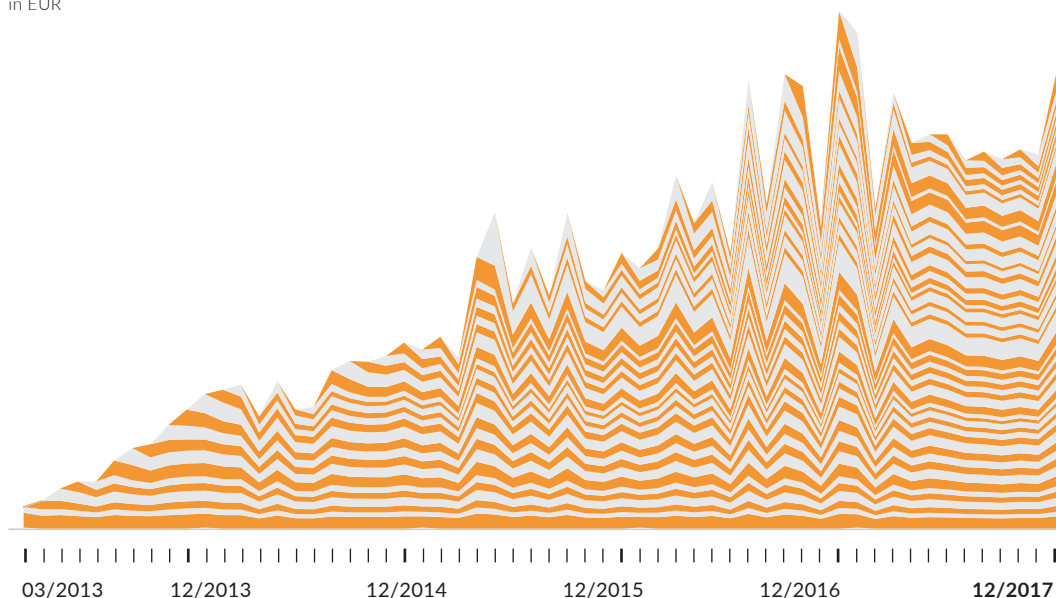
Lotto24 is attractively positioned in the value chain of the lottery business: we broker lottery products via the Internet and receive brokerage commissions from the lottery operators. We can therefore generate income without bearing the bookmaking risk ourselves.

Amongst other things, we offer our customers the possibility to participate in the state-licensed 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 customers and 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 can shape our external appearance and produce 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 development teams of our IT department. Wherever it makes economic or professional sense, we also work with external agencies and specialists.

Regular measurement of advertising success

In order to know at all times how efficiently we are achieving our targets, we have installed tracking systems for all areas of marketing. We can precisely measure the success of all campaigns in real time and 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 recent survey of 1,002 Internet users with an affinity for lotteries conducted in January 2018: the Lotto24 brand was once again named first in unprompted awareness of all online providers with a share of 28% (prior year: 29%). In prompted responses, the share even rose from 66% to 73% – clear confirmation of our branding success. The survey also underlined the tremendous market potential: 83% of Internet users questioned could imagine playing lotto online in future (prior year: 81%) and 76% had specific plans to do so (prior year: 70%).

Advertising stepped up for major 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 three years. Once again, the European lottery made a significant contribution to our growth, in terms of both new customers and billings, in the reporting period.

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 500 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.

Mobile marketing is used to reach around 66.5 million people in Germany now using mobile Internet offerings, such as apps or so-called mobile-enabled websites (source: We are Social, »Digital in 2017« study).

Mobile sales

We offer apps via the respective app stores for the two relevant mobile operating systems, »Android« (Google) and »iOS« (Apple), whose aggregated market share in Germany amounts to 98% (source: Kantar World Panel, 09/2017). These apps are specially designed to meet the needs of users and their respective devices – whether smartphone or tablet. The light version for Android without the possibility to play was listed until recently in the so-called »Google Play Store«. However, we removed it from the store until further notice as it cannot offer the service, and thus the benefit, that our customers expect from us due to the Google 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 satisfactory overall product, we want to reach our aim of establishing long-term customer relationships 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.

Since giving our customers the possibility to rate us via »Trusted Shops«, we have continually received a »very good« rating from our customers – 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 stipulations of 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 »DEUTSCHLAND TEST« (a trademark of the magazine »FOCUS-MONEY«) examined all major online lotto providers in Germany in November 2016: Lotto24 was the clear test winner and only provider to receive five out of five stars in the extensive analysis, comprising the categories Cost, Security and Offerings & Service.

Promising growth strategy

We want to continue growing in Germany by using targeted marketing measures to win new customers while also expanding the Lotto24 product portfolio. In addition to the lotteries already offered – and depending on the prevailing legal conditions – we aim to introduce other state-licensed games of chance in the medium term, whereby we will continue to focus on the German lottery market.

In addition, we are working on innovative product combinations of interest to our clients and adding new functions to our lottery tickets that make the gaming experience even more attractive and convenient.

Nearly all entertainment-based devices now have access to the Internet and offer apps to enable e-commerce activities – depending on how they are being used. Wherever digital distribution makes sense and users expect the possibility to play the lottery, we want to be their first choice and are therefore planning to expand our digital sales channels. We already provide our customers with solutions for their smartphones, tablets and smartwatches which we are continually developing and improving. As of April 2017, we are also represented by an Amazon application (»Alexa Skill«) for requesting the lotto numbers and latest jackpot figures via Amazon's smart speakers.

Launch of »Deutsche Weihnachtslotterie«

In November 2017, we once again expanded our online offerings with the roll-out of »Deutsche Weihnachtslotterie« (the German Christmas Lottery) – a new and exciting lottery product. 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 with a main prize of EUR 300,000 per winner and a relatively high win probability of 1:99,500. Its beneficiaries are the foundations »Stiftung Lesen« (whose patron is the German President Frank-Walter Steinmeier), »Deutsche Kinder- und Jugendstiftung« (patron Elke Büdenbender), and »Lukas Podolski Stiftung« for sport and education.

Improved user experience for our customers

In 2017, we introduced a number of improvements across the entire user experience on Lotto24.de: for example, we introduced the partial offsetting of credits on player accounts when purchasing further lottery tickets (as requested by our customers). In addition to enhancing product images – especially for the mobile version of our webshop – we also implemented a new technology for sending push notifications in our apps that enables more targeted delivery of relevant information to our app users.

Key success factor IT

Decisive competitive factor: technological and methodical expertise

Customers bought around 19 million tickets from us in 2017 and tried their luck with almost 84 million tips. And as always: the higher the jackpot, the greater the demand in our online lottery shop. With several high-speed Internet connections, we can easily handle the ever-growing volume of transactions. 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 ensure that as many mistakes as possible are detected and remedied.

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. Around 500 virtual servers run in our own private cloud, which is distributed over three data centres. The fact that these systems are operated by our own IT team means they can be optimised immediately whenever new experience is made during 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 efficient product development process for flexible and fast project success.

In the field of business intelligence – which deals with the analysis, preparation and reporting of corporate data stored by Lotto24 – we continued along our path to becoming a data-driven company with the transition to the market-leading product »Qlik« completed in 2016. It allows our employees to access all relevant data for evaluations at any time via a so-called »self-service portal«.

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

The main KPIs which we use to steer the Company and whose respective values we strive to raise are:

- the **number of registered customers** (customers who have successfully completed the registration process on the Lotto24 website),
- the **activity rate** (ratio of the average number of active customers in one month – customers with at least one transaction per month – to the average number of registered customers in a year),
- **billings** (stakes placed by customers, influenced both by the variety and attractiveness of Lotto24's product portfolio and the efficiency of customer retention measures) as well as
- **average billings per active customer** and
- **gross margin** (ratio of revenues to billings).

In addition, we monitor the efficiency of our marketing activities with the KPI cost per lead (CPL).

	2017	2016
Number of registered customers as of 31 December (in thousand)	1,573	1,282
Number of new customer registrations (in thousand)	291	399
Average number of registered customers (in thousand)	1,453	1,084
Average number of active customers (in thousand)	338	293
Average activity rate (%)	23.2	27.0
Average billings per active customer (in EUR)	654	685
Cost per lead (CPL, in EUR)	27.32	27.13
Gross margin (%)	11.4	11.3
Direct operating expenses as a proportion of billings (%)	1.1	1.2
Employees as of 31 December (number) ¹⁾	89	79

¹⁾ Full-time equivalents, not including members of the Executive Board and student helpers.

Registered customers: customers who have successfully completed the registration process on the Company's website. This number is disclosed after adjustment for multiple registrations and deregistrations.

Average number of registered customers: the arithmetic mean of the month-end figures for registered customers in the period under review.

Active customers: customers who complete at least one transaction per month.

Average activity rate: the relationship between the average number of active customers and the average number of registered customers in one year.

Average number of active customers in one year: the arithmetic mean of the number of active customers in each month of a year.

Average billings per active customer: the relationship between total billings of Lotto24 AG (incl. business services) and the average number of active customers.

Trend underlines sustainability of business model

Despite the exceptionally weak jackpot situation in the second half of the year, billings per active customer of EUR 654 in 2017 were satisfactory but slightly below the prior-year figure of EUR 685. 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«.

At 23.2%, the average activity rate in 2017 was down on the previous year (27.0%). Due to the comparatively weaker jackpot situation and the higher proportion of existing customers now reached, this trend is in line with expectations as new customers are generally more active. However, their activity rate then falls to a stable but lower level over time.

REGISTERED CUSTOMERS

in thousand	2017	2016
Number of registered customers on 31 December of the previous year	1,282	883
First quarter (new customers)	95	106
Second quarter (new customers)	66	69
Third quarter (new customers)	55	111
Fourth quarter (new customers)	75	113
Number of registered customers on 31 December	1,573	1,282

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 the German Association of State Lottery Companies (»Deutscher Lotto- und Totoblock, 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 210 million (remitted billings) in 2017, around EUR 84 million was made available to social, sporting and cultural causes, as well as landmark protection activities, via DLTB.

KEY NON-FINANCIAL FIGURES

	2017	2016	Outlook 2018
Market share of online lottery segment ¹⁾	32%	31%	still growing
Customer satisfaction ²⁾	92%	88%	still very high
Staff satisfaction ³⁾			
Identification with company	95%	97%	still very high
Recommendation as employer	95%	97%	
Staff fluctuation rate	14%	15%	falling
Corporate Social Responsibility Share of taxes and duties for brokered stakes ⁴⁾	around EUR 84 million	around EUR 77 million	still growing

¹⁾ Source: German Lottery Association

²⁾ Source: Customer satisfaction survey 2016 and 2018

³⁾ Source: Staff surveys 2016 and 2017

⁴⁾ 40% of remitted billings (prior 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 the online platform, which covers our 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.

Apart from improvements to the quality and user friendliness of our offerings, a major technical development in 2017 was »Deutsche Weihnachtslotterie«.

Our own research and development costs are not capitalised, whereby the amount is negligible in any case.

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. Compared to the previously valid regulations contained in the permit, the newly granted brokerage permit restricted the possibility to grant discounts. However, at our request, the Ministry of the Interior for Lower Saxony granted preliminary toleration of discount measures which complied with the restrictions of the advertising permit issued in September 2017. The toleration was granted until the decision on a supplementary permit. With an amendment decision dated 9 February 2018, the Ministry of the Interior for Lower Saxony granted our application for the issue of a permit pursuant to the discount restrictions which previously applied in the advertising permit. On issue of the decision, the original rebate restrictions now apply again.

Advertising permit

On 26 January 2017, the German authority responsible for advertising standards, the District Government of Dusseldorf, prolonged the advertising permit we received in March 2013. The prolongation was initially tied to the remaining term of the brokerage permit until 23 September 2017 and has been extended by the new brokerage permit until 12 March 2019 in accordance with the usual two-year period of validity. The advertising permit authorises us 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

In our opinion, there are still significant legal uncertainties under the current GlüStV: it is disputed 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 hypothetical 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. 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. Providers of lottery betting not allowed in Germany can run high-reach German TV commercials and are thus continuing to grow. For the reasons stated above, we therefore regard the main regulations of the GlüStV as incoherent, unlawful, unsuitable and thus inapplicable with regard to the primacy of the fundamental freedoms under EU law.

This view was also upheld by the Administrative Court of Munich in its decision of 25 July 2017. 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 five 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.

In 2016, the European Court of Justice («ECJ») expressed its criticism of the permit requirement for the brokering of sports betting included in the GlüStV. 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 forbid 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 and the Internet. By contrast, lotteries are still subject to extensive restrictions. This demonstrates the incoherency and inconsistency of the GlüStV and forces 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 once again 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.

The pilot proceedings already brought against the Federal Republic of Germany by the EU Commission in 2015 in preparation of infringement proceedings was 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. The regionalisation obligation for lottery brokers is thus also clearly unlawful and our legal opinion on this matter has been basically confirmed by the EU Commission.

Germany’s federal states originally intended to react to the criticism of the courts by issuing a second revision of the State Treaty on Games of Chance (»second revision«), thereby paving the way for the granting of licenses for sports betting providers. This second revision was to come into force on 1 January 2018. In the summer of 2017, however, the newly elected government in Schleswig-Holstein decided not to ratify the second revision in order to enable a »viable solution in line with European law«, which was to be based on the regulations already in force in Schleswig-Holstein between 2012 and 2013. The governments of North Rhine-Westphalia and Hesse have also called for far-reaching amendments, making a fundamental reform of Germany’s gaming regulations now more likely. As a result, the second revision could not be introduced as planned and the drafting of a new compromise between all federal states has thus become even more urgent.

The minimal changes envisaged by the second revision are not suitable for remedying the current legal uncertainties. They only dealt with the issuing of sports betting licenses and represented the smallest possible compromise needed by the federal states to rescue the licensing procedure. Sports betting reform is urgently required to provide increased legal certainty for gaming regulations and thus allow stricter enforcement with regard to offerings not permitted in Germany or illegal advertising. The latter may have positive effects for commercial gaming brokers.

Legal disputes and regulatory proceedings

In its ruling on 22 June 2017, the Higher Administrative Court of Hamburg (OVG Hamburg) largely rejected our appeal against restrictions of the brokerage permit. Although the OVG Hamburg confirmed the cancellation of a duty to check whether players were on a lotto blacklist and obliges the authorities to reassess the requirements on age verification, it also confirmed the regionalisation duty and the legality of the Gambling Council. We continue to believe that our counter-arguments are well founded and have filed an appeal against the ruling. Although the chances of success are uncertain, we are optimistic that the Federal Administrative Court (BVerwG) will deal critically with the fundamental principles we are attacking. We currently expect a decision in the course of the year.

In addition, we challenged the new advertising permit granted in January 2017 before the Administrative Court of Hamburg (VG Hamburg) due to the continued and identical restrictions it contains. Although 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 OVG Hamburg, no date has yet been set for an oral hearing. The court is possibly waiting first for a ruling by the BVerwG regarding the legal validity of the brokerage permit.

Economic conditions

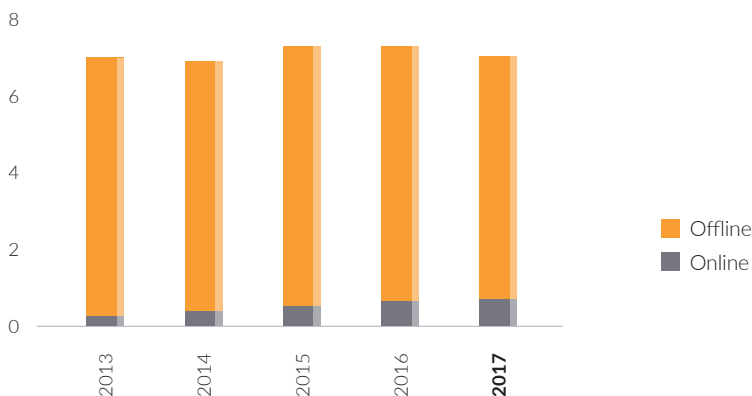
German lottery market stagnating

Due to regulation, the German lottery market declined sharply from 2007 to 2012: according to a study by the market research company »Global Betting and Gaming Consultants, GBGC« of April 2013, the introduction of the first GlüStV 2008 caused German lottery revenues to fall by 16% between 1 August 2007 and 31 December 2012, while international lottery revenues rose by 22% over the same period (source: »Media & Entertainment Consulting Network GmbH, MECN«, »MECN Extra Research, German Lottery Market«, July 2013).

After the less restrictive GlüStV came into force in July 2012, there was initially a significant surge in growth: from 2012 to 2013, total revenues of DLTB – comprising the products »Lotto 6aus49«, »Spiel 77«, »EuroJackpot«, »Super 6«, »Sofortlotterien«, »GlücksSpirale«, »Oddset«, »Keno«, »Bingo«, »Toto« and »Plus 5« – rose by around 10%, due primarily to a price increase for the most important product »Lotto 6aus49«. Since then, sales progress has been mixed with annual fluctuation rates of between -3.6% and 4.0% depending on the respective jackpot trend: in 2013, total revenues were EUR 7.0 billion, then reached EUR 7.3 billion before falling 3.6% to EUR 7.1 billion in 2017 (source: DLTB).

TOTAL MARKET DEVELOPMENT

in EUR billion



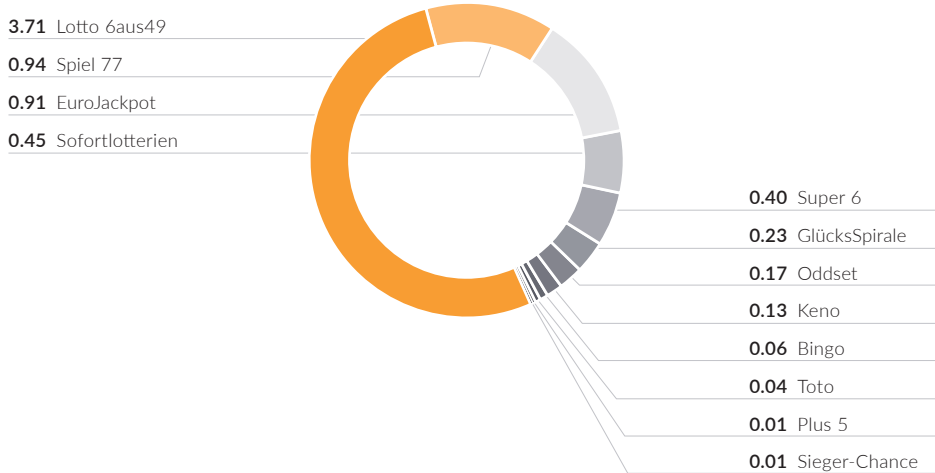
Product portfolio of the state lottery companies

As in the previous years, »Lotto 6aus49« accounted for the largest share of sales generated by the products of Germany's state lottery companies with stakes of EUR 3.7 billion (prior year: EUR 3.8 billion). In second place once again was the supplementary lottery »Spiel 77« with revenues of EUR 940 million (prior year: EUR 979 million), followed by »EuroJackpot« with EUR 906 million (prior year: EUR 965 million). Other products are »Sofortlotterien«, »Super6«, »GlücksSpirale«, »Oddset«, »Keno«, »Bingo«, »Toto«, »Plus 5« and »Sieger-Chance«.

The development of our revenues may be positively or negatively influenced by changes to the product portfolio of the German state lottery companies and the respective regulations for the online brokerage of these products.

REVENUE SHARES OF »DEUTSCHER LOTTO- UND TOTOBLOCK« 2017

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 2018 of 1,002 Internet users with an affinity for lotto once again confirmed the huge market potential of the online lottery segment: 83% of Internet users polled could imagine playing lotto online in future (prior year: 81%) and 76% had specific plans to do so (prior year: 70%). Translated to 22.2 million lotto players, this 76% represents a market potential of 16.9 million potential online lotto players. Based on total lottery revenues of around EUR 7.1 billion, this corresponds to potential online lottery revenues of EUR 5.4 billion.

Despite the comparatively modest trend of the German lottery market so far compared to other European countries, we see significant catch-up potential here. In our opinion, this anticipated growth is based on the following factors in particular:

- As online lottery offerings were completely forbidden until mid 2012, we expect strong revenue growth in future. 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. In 2014, for example, the online segment of the lottery market was almost 51% in Slovakia, around 40% in Finland, and approximately 18% in Norway and Great Britain (source: GBGC, »Interactive Lottery Sales«, May 2016).
- The growing importance of e-commerce as a sales channel for various products and services also supports the growth outlook for the online lottery market – and mobile offerings strengthen this trend even more. In 2016, 60% of all banking was done online (source: Postbank, »Der digitale Deutsche und das Geld 2016«, May 2016), 48% of music was sold online in the first half of 2017 (source: Bundesverband Musikindustrie, »Halbjahresreport 2017«, July 2017) and 39% of trips were booked online in 2016 (source: DRV, »Der deutsche Reisemarkt Zahlen und Fakten 2016«, August 2017).
- Since the introduction of new advertising guidelines on 1 February 2013 and subsequently increasing marketing expenditure for the Internet and TV, online lottery has received more attention and enjoys greater awareness.

Our assessment is confirmed by the current growth rates of the online segment. According to information of DLTB and the German Lottery Association, online revenues of state lottery companies and private brokers have been steadily rising: from EUR 35 million in 2012 to EUR 650 million in 2016 and around EUR 700 million in 2017 following further growth of 7.6%. Online sales thus accounted for approximately 10% of total German lottery sales in 2017 (prior year: 9%) – a share which is still far below the comparative figures of other countries and that of other German online markets. Consequently, there is still plenty of room for growth.

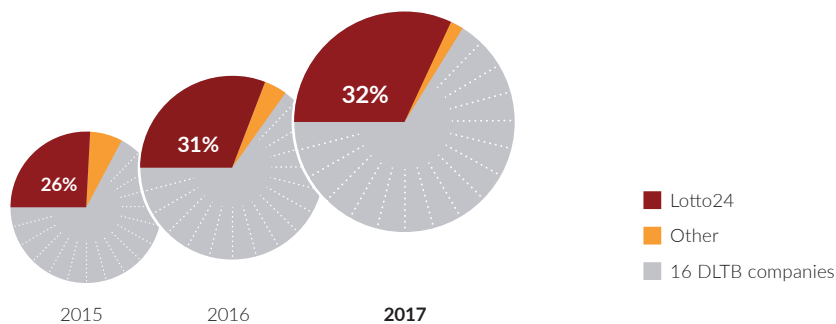
Lotto24 is still market leader

The permitted online lottery market grew by 7.6% to around EUR 700 million in 2017 (prior year: EUR 650 million). In the same period, online sales of the 16 state-owned lottery companies increased by 9.8% to EUR 461 million (prior year: EUR 420 million).

With a 10.1% increase in billings to EUR 221 million (prior year: EUR 201 million), we extended our lead as an online provider of state-licensed lotteries to 32% (prior year: 31%). As a result, we remain the largest provider of online lotto in Germany by far – ahead of all state lottery companies.

Taken together, other lottery brokers had an online market share of just 2% or so in 2017.

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 key performance indicators (KPIs) are also influenced by the number of competitors aggressively advertising their online lottery services. Our main competitors are still 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, 18 private commercial gaming brokers have received brokerage permits 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 very modest in 2017.

By contrast, 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 2017 without any significant measures being taken by the regulatory bodies. According to DLTB figures, gross advertising spend for »illegal lottery betting« more than doubled year on year to EUR 79 million in 2017. Whether and to what extent the regulatory bodies will take action or the current »Brexit« plans, i.e. the exit of Great Britain (including Gibraltar) from the EU, will affect the business model of secondary lottery providers remains to be seen.

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

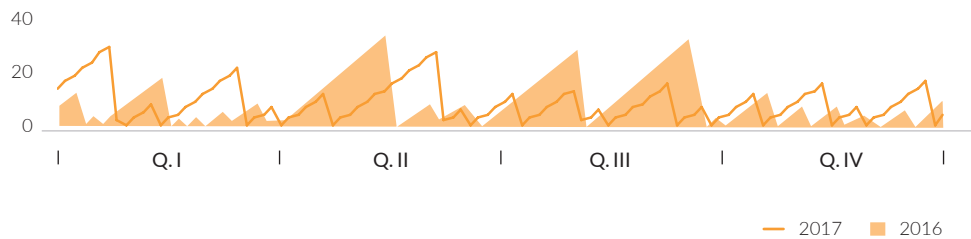
We expect particularly strong increases in the activity rate and number of registered customers when potential players have greater expectations of exceptional winnings, in other words whenever there are large jackpots. Such jackpots are comprised of stakes submitted by players who did not meet the conditions 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.

As in the previous year, the German lottery »Lotto 6aus49« reported three jackpots of over EUR 20 million in 2017 – although none in the second half of the year (prior year: two) – with two guaranteed jackpot payouts after the 13th draw (prior year: two). However, the significance of large »Lotto 6aus49« jackpots is steadily declining in view of the much larger jackpots of the European lottery »EuroJackpot«. The latter reached EUR 90 million and EUR 86 million once in 2017 (none of which fell in the second half of the year) and thus performed slightly worse than in the prior-year period (as expected), during which it reached or exceeded the EUR 75 million mark four times with jackpots of EUR 75, 82 and twice 90 million (the last two in the fourth quarter).

On the basis of statistical probability, we expect higher jackpots in fiscal year 2018 than in 2017.

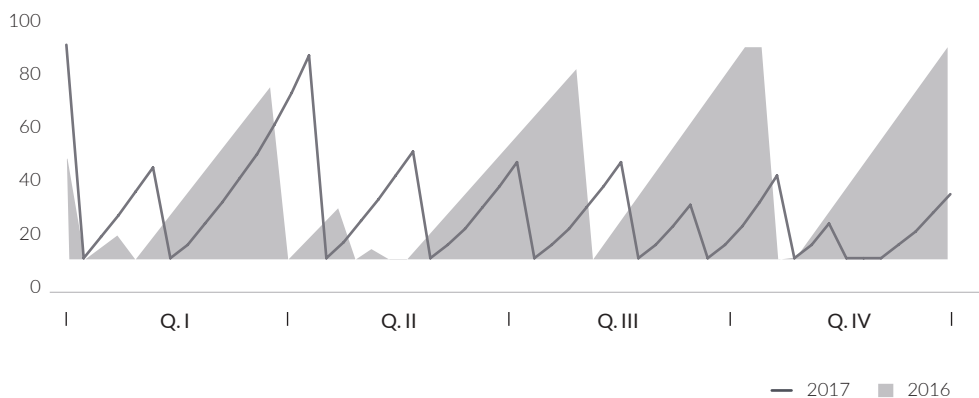
Lotto 6aus49

in EUR million



EuroJackpot

in EUR million



Business development

Forecast

Due to the exceptionally weak jackpot trend in the second half of the year, our performance in fiscal year 2017 was not as good as expected: on 19 October 2017, we therefore downgraded our original guidance of 10 January 2017.

FORECAST COMPARISON

	Forecast (10.01.2017/19.10.2017)	2017 Actual	2016 Actual
Billings	Increase of 15% to 20%/ Increase of 10% to 15%	EUR 220.7 million (+10.1%)	EUR 200.5 million
Gross margin	Stable compared to previous year	11.4%	11.3%
Marketing expenses	Significantly reduced	EUR 7.9 million	EUR 10.8 million
CPL	Higher than previous year/ on par with previous year	EUR 27.32	EUR 27.13
EBIT	Slightly above break-even	EUR 1.0 million	EUR -3.9 million
Net profit	Clearly above break-even	EUR 2.5 million	EUR -2.3 million
New customers	Much lower number	291 thousand	399 thousand

With 291 thousand new customers in fiscal year 2017 (prior year: 399 thousand) – of which just 75 thousand in the fourth quarter (prior year: 113 thousand) due to the weak jackpot trend in the second half of the year – the total number of customers registered with Lotto24 rose by 22.7% to 1,573 thousand (prior year: 1,282 thousand).

Thanks to efficient marketing activities – which we adapt to the prevailing jackpot trend – cost per lead (CPL) was on a par with EUR 27.32 in 2017 (prior year: EUR 27.13), despite rising to EUR 29.40 in the fourth quarter (prior year: EUR 26.85).

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

	2017	2016	Change %	Q. IV '17*	Q. IV '16*	Change %
	in EUR thousand	in EUR thousand		in EUR thousand	in EUR thousand	
Billings	220,736	200,520	10.1	56,163	58,968	-4.8
Stakes to be remitted (less revenues)	-195,520	-177,762	10.0	-49,711	-51,824	-4.1
Revenues	25,216	22,759	10.8	6,452	7,145	-9.7
Personnel expenses	-8,873	-8,239	7.7	-1,914	-2,343	-18.3
Other operating expenses	-14,334	-17,251	-16.9	-3,796	-4,675	-18.8
less other operating income	38	58	-33.7	17	17	0.0
Operating expenses	-23,168	-25,432	-8.9	-5,692	-7,001	-18.7
EBITDA	2,048	-2,674	-176.6	760	143	430.4
Amortisation and depreciation	-1,035	-1,247	-17.0	-252	-392	-35.8
EBIT	1,013	-3,921	-125.8	508	-249	-304.2
Financial result	-293	-292	0.4	-51	-102	-49.9
Earnings before taxes	720	-4,213	-117.1	457	-351	-230.2
Income taxes	1,813	1,891	-4.1	754	-626	-220.3
Net profit	2,533	-2,322	-209.1	1,210	-977	-223.8
Breakdown of other operating expenses						
Marketing expenses	-7,890	-10,824	-27.1	-2,132	-3,026	-29.5
Direct operating expenses	-2,519	-2,464	2.3	-596	-678	-12.2
Indirect operating expenses	-3,924	-3,964	-1.0	-1,067	-971	9.9
Other operating expenses	-14,334	-17,251	-16.9	-3,796	-4,675	-18.8

*unaudited

Further strong progress in all KPIs

Despite the exceptionally weak jackpot situation in the second half of 2017 – especially compared to the high jackpots of the previous year – and stronger competition, we raised billings by 10.1% to EUR 220,736 thousand in 2017 (prior year: EUR 200,520 thousand) and revenues by 10.8% to EUR 25,216 thousand (prior year: EUR 22,759 thousand). By contrast, billings and revenues in the fourth quarter of 2017 fell by 4.8% to EUR 56,163 thousand (prior year: EUR 58,968 thousand) and by 9.7% to EUR 6,452 thousand (prior year: EUR 7,145 thousand), respectively.

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.

Despite a decline in the fourth quarter from 12.1% to 11.5%, the gross margin in 2017 as a whole improved to 11.4% (prior year: 11.3%).

Break-even reached

The encouraging revenue trend and lower marketing expenses had a particularly positive impact on EBIT and net profit: at EUR 1,013 thousand (prior year: EUR -3,921 thousand), EBIT improved significantly and easily passed break-even point for the first time.

The financial result amounted to EUR -293 thousand (prior year: EUR -292 thousand). This figure included comparatively lower financial income from interest received on investing liquid funds not immediately required, as well as interest paid on loans taken out.

The net result for the period improved by EUR 4,855 thousand to EUR 2,533 thousand (prior year: EUR -2,322 thousand). In 2017, further deferred tax assets were formed for loss carry-forwards.

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

Development of key income statement items

At the end of the reporting period on 31 December 2017, Lotto24 AG had 89 employees (full-time equivalents, excluding the three Executive Board members and student helpers, prior year: 79). 39% (prior year: 39%) of employees and 7 student helpers (prior year: 8) were employed in Marketing (including customer service). 40% (prior year: 39%) of our employees were employed in the IT department.

The increase in personnel expenses to EUR 8,873 thousand in 2017 (prior year: EUR 8,239 thousand) was mainly due to the change in the Executive Board member for IT, the year-on-year increase in the valuation of long-term multi-year variable remuneration components for Executive Board members (EUR 1,482 thousand; prior year: EUR 1,283 thousand) and the rise in headcount.

As of 31 December 2017, other operating expenses fell year on year by EUR 2,917 thousand, from EUR 17,251 thousand to EUR 14,334 thousand. The development in detail was as follows:

- In view of the exceptionally weak jackpot trend for »Lotto 6aus49« and »EuroJackpot« in the second half of the year, **marketing expenses** in 2017 were down on the previous year at EUR 7,890 thousand (prior year: EUR 10,824 thousand).
- Due to increased billings and a change in the payment method mix, **direct costs of operations** (mainly costs for billings-related payment transactions as well as B2B and business services) rose to EUR 2,519 thousand (prior year: EUR 2,464 thousand). We expect that the remaining direct costs will continue to increase in future, as they develop more or less in proportion with billings.
- **Indirect operating expenses** fell from EUR 3,964 thousand to EUR 3,924 thousand. There was a particularly strong decline in the use of external consultancy services to EUR 1,648 thousand (prior year: EUR 1,996 thousand). At the same time, maintenance/service costs rose to EUR 817 thousand (prior year: EUR 587 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 fell to EUR 1,035 thousand (prior year: EUR 1,247 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 1,540 thousand. The subscribed capital of Lotto24 AG is unchanged from the end of the reporting period 2016 (EUR 24,155 thousand; prior year: EUR 24,155 thousand).

As of 31 December 2017, equity amounted to EUR 24,629 thousand and comprised the following items:

EQUITY		
in EUR thousand	31.12.2017	31.12.2016
Subscribed capital	24,155	24,155
Capital reserves	2,415	41,012
Other reserves	-	-6
Retained earnings	-1,942	-43,070
Total	24,629	22,091

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 fiscal year and a reclassification from capital reserves. We have adopted the reclassification of free capital reserves in excess of one tenth of share capital according to HGB, taking account of the previous issuance costs of EUR 1,368 thousand and costs for the capital increase for contribution in kind of EUR 25 thousand, which are carried in the IFRS separate financial statements as a deduction from equity, amounting to EUR 8,169 thousand (prior year: EUR 11,978 thousand) according to Section 272 (2) No. 4 HGB and the full amount of the committed capital reserves according to HGB of EUR 30,427 thousand (prior year: EUR 30,427 thousand) according to Section 272 (2) Nos.1-3 HGB to retained earnings as of 31 December 2017. This decision marks the first step towards being able to distribute dividends.

Other reserves comprised measurement changes to the fair value (gains/losses) of available-for-sale financial assets. The change (withdrawal/addition) recognised in other reserves corresponds to other comprehensive income in the statement of comprehensive income (EUR 6 thousand, prior year: EUR 50 thousand). Please also refer to the statement of comprehensive income. All available-for-sale financial investments were sold during the course of 2017.

The balance sheet total fell by EUR 5,557 thousand, from EUR 48,250 thousand to EUR 42,693 thousand.

TRADE PAYABLES

in EUR thousand	31.12.2017	31.12.2016
Trade payables	1,416	1,957
Total	1,416	1,957

Trade payables 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.

Other liabilities consisted of the following items:

OTHER LIABILITIES

in EUR thousand	31.12.2017	31.12.2016
Liabilities from gaming operations	9,532	14,950
Interest-bearing loan	2,283	3,206
Amounts due in connection with taxes (VAT, payroll and church taxes) and social security	431	347
Other	228	75
Holiday obligations	90	140
Interest liabilities	3	102
Total	12,567	18,821

As of 31 December 2017, other liabilities fell to EUR 12,567 thousand (prior year: EUR 18,821 thousand). They mainly comprised liabilities from gaming operations of EUR 9,532 thousand (prior year: EUR 14,950 thousand), which were impacted by both reduced billings and comparatively lower customer winnings due to the exceptionally weak jackpot situation for the »Lotto 6aus49« and »EuroJackpot« lotteries in the period immediately before the reporting date. This item, which is expected to increase further as billings grow, comprises obligations from invoicing our customers and the state lottery companies. It 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 loan granted by the Günther Group in September 2016 (loan: EUR 2,000 thousand; prior year: EUR 0 thousand), as well as instalments due within twelve months for IT equipment at our new data centres (hire purchase agreements: EUR 283 thousand; prior year: EUR 206 thousand). Due to its term, the loan granted by the Günther Group was carried under long-term financial loans until 31 December 2016 (see Note 19). The loan in connection with IT insourcing carried under interest-bearing loans in the previous year was terminated prematurely due to the positive liquidity trend in order to save interest (EUR 0 thousand; prior year: EUR 3,000 thousand).

As a result of reporting date effects, there was an increase in amounts due in connection with taxes – mostly from sales activities (EUR 320 thousand; prior year: EUR 246 thousand) – as well as payroll obligations (EUR 109 thousand; prior year: EUR 100 thousand). Holiday obligations were down on the previous year (EUR 90 thousand; prior year: EUR 140 thousand). The remaining other liabilities mainly comprised provisions for other personnel expenses. Interest obligations at the end of the reporting period (EUR 3 thousand; prior year: EUR 102 thousand) result from the hire purchase agreements.

With the exception of amounts due in connection with taxes and holiday obligations, the items above were exclusively financial liabilities.

Investment analysis

In the reporting period, we invested a total of EUR 1,344 thousand (prior year: EUR 637 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	2017	2016
Cash flow from operating activities	2,125	-319
Cash flow from investing activities	-1,339	4,014
thereof financial investments	5	4,650
thereof operative investments	-1,344	-637
Cash flow from financing activities	-2,692	1,410
Change in available funds	-1,907	5,105
Available funds at the beginning of the period	10,178	5,073
Available funds at the end of the period	8,271	10,178

Due to the improvement in earnings in fiscal year 2017 and the increase in gaming operations, cash flow from operating activities rose to EUR 2,125 thousand (prior year: EUR -319 thousand).

Cash flow from investing activities amounted to EUR -1,339 thousand (prior year: EUR 4,014 thousand), as we sold the remaining financial assets, and disbursements for capital expenditure far exceeded net payments received from the sale of financial assets.

Net cash flow from financing activities of EUR -2,692 thousand (prior year: EUR 1,410 thousand) includes both the hire purchase contracts concluded and the fully redeemed loan for the IT insourcing process.

As of 31 December 2017, other assets and prepaid expenses comprised the following items:

OTHER ASSETS AND PREPAID EXPENSES		
in EUR thousand	31.12.2017	31.12.2016
Receivables from gaming operations	4,450	10,149
Deposits	1,011	976
Prepaid expenses	531	537
Tax receivables	-	7
Other	6	-
Total	5,998	11,669

Asset position

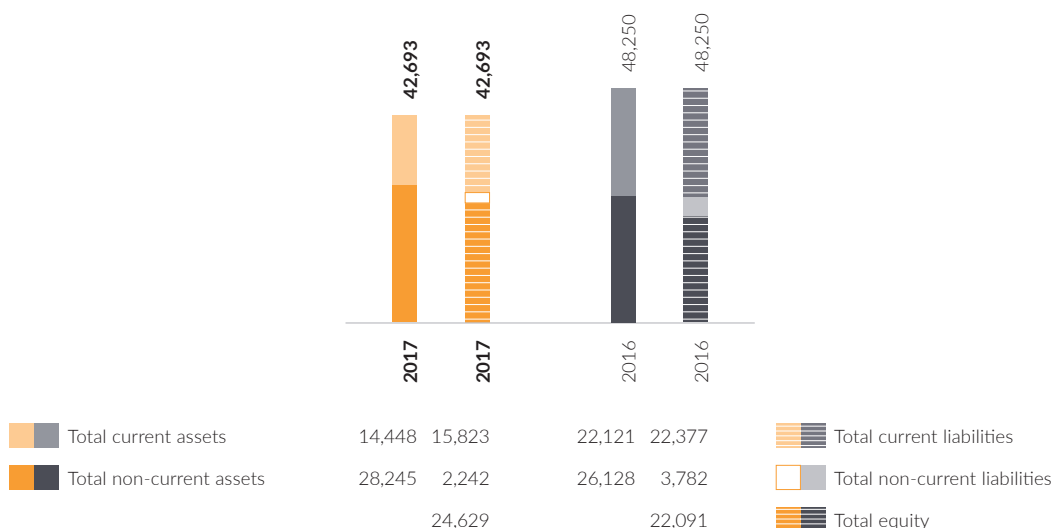
Compared to 31 December 2016, total assets decreased by EUR 5,557 thousand to EUR 42,693 thousand as of 31 December 2017 – due mainly to the decline in receivables from gaming operations as of the reporting date.

Current assets mainly comprised other assets and prepaid expenses (EUR 5,998 thousand; prior year: EUR 11,669 thousand), as well as cash and cash equivalents (EUR 8,271 thousand; prior year: EUR 9,481 thousand). The other financial assets were sold in 2017 (EUR 0 thousand; prior year: EUR 697 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 7,239 thousand; prior year: EUR 5,429 thousand).

BALANCE SHEET STRUCTURE

in EUR thousand



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 7,321 thousand (prior year: EUR 1,890 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

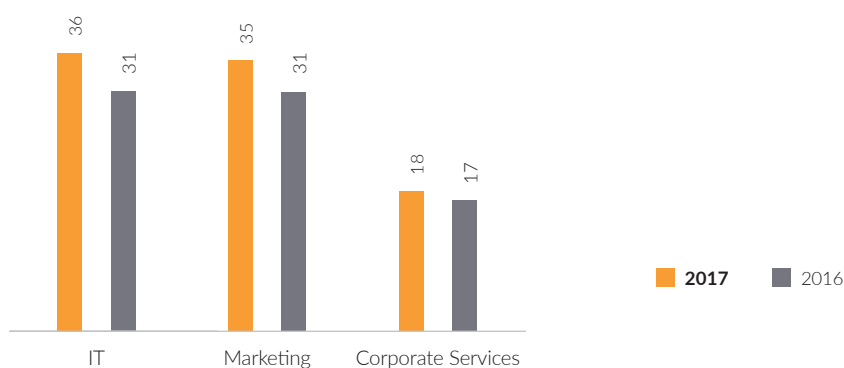
Lotto24 is well positioned to participate further in the growth of Germany's online lottery market: after already establishing ourselves as market leader in 2014, we continued to grow steadily and have consistently extended our leading position. Amongst other things, the trust placed in us by our major shareholders over several successful capital increases for cash until reaching break-even in fiscal year 2017, gave us further momentum.

Employees

At the end of the reporting period on 31 December 2017, Lotto24 AG had 89 employees (full-time equivalents, excluding the three Executive Board members and student helpers, prior year: 79). 39% (prior year: 39%) of employees and 7 student helpers (prior year: 8) were employed in Marketing (including customer service). 40% (prior year: 39%) of our employees were employed in the IT department.

Staff fluctuation fell to 14% in the reporting period (prior year: 15%).

HEADCOUNT BY DEPARTMENT ¹⁾



¹⁾ rounded to full-time equivalents per department

NUMBER OF EMPLOYEES¹⁾

	31.12.2017	31.12.2016
Lotto24 total	94	83
of which women	30	24
of which part-time staff	18	16
Average age of staff in years	37	37
Staff fluctuation in % (annual average)	14	15
Employees (full-time equivalent)	89	79

¹⁾ At end of reporting period; excluding Executive Board members, and student helpers.

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.

Lotto24 takes on first apprentices

In August 2017, four new apprentices began their training at Lotto24: this is the first time that we have offered such a vocational training programme (IT Specialist with a Major in Systems Integration and Application Development). We aim to be able to meet our future needs for skilled staff in part via our systematic youth training programme.

High level of staff satisfaction

In September 2017, we conducted our fifth 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: 95% would recommend Lotto24 AG to others as an employer (prior year: 97%). 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 2018, 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. On kununu – the largest German-language platform for employer ratings – we currently have a very impressive 4.54 out of 5.00 possible points (as of: 22 March 2018) with a 97% recommendation rate, and are well above the industry average in the field of »IT« (3.67) and the overall kununu average (3.25).

Corporate Social Responsibility

Around EUR 84 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, EUR 2.8 billion of lottery money was used to support good causes in 2017 (prior year: almost EUR 3.0 billion). Of this total, EUR 1.6 billion (prior year: EUR 1.7 billion) benefited projects in the field of culture, sport, society and welfare, as well as landmark and environmental protection. Almost EUR 1.2 billion of lottery taxes flowed into the coffers of Germany's regional states (prior year: EUR 1.2 billion). These in turn supported various direct and indirect measures – also via lottery foundations – in the field of environmental protection, cultural and landmark protection, as well as social and charitable work.

Our brokerage activities therefore provided around EUR 84 million for important social and community projects in 2017.

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.

As of November 2017, we have also been offering the newly launched »Deutsche Weihnachtslotterie«: 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

Member of the Executive Board Kai Hannemann left Lotto24

There has been a change in the Executive Board of Lotto24 AG: Kai Hannemann, 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, stepped down from the Executive Board on 31 January 2018 for personal reasons and asked the Supervisory Board to prematurely terminate his service agreement. The Supervisory Board agreed to his request with regret.

Kai Hannemann joined Lotto24 as CIO (Chief Information Officer) in February 2014 and was appointed to the Executive Board in July 2016. Under his guidance, we successfully completed the insourcing of IT activities. He shaped the entire IT organisation and infrastructure, whose highly scalable technology has enabled the continued growth and ongoing expansion of our product offerings.

Until a successor has been appointed, the IT departments are being headed on an interim basis by Petra von Strombeck, CEO of Lotto24 AG.

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 can 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 has expanded the existing risk management system by including an integrated compliance management system within the 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 Internet 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 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. The Compliance Officer 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 the 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

Since the end of 2015, 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. Once again in 2017, providers without the necessary permits ran extensive prime-time advertising campaigns on high-reach TV channels. As a result, some were able to significantly increase awareness of their brands. Consumers are now no longer able to distinguish between providers with and without permits.

So far, the relevant regulatory authorities have not taken sufficient action to prevent such unauthorised advertising. Their unclear responsibilities in the various German states and the difficulty of implementing state regulatory measures abroad may significantly impede the competitive situation in future.

In addition, the special appeal of foreign jackpot lotteries and more innovative instant lotteries might lead to a smaller number of new customers, the loss of existing customers, lower revenue growth and greater advertising costs.

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 State Treaty on Games of Chance. 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.

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.

The Finance division is 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

Removal of significant permit restrictions

We have so far had little success in our proceedings against the permit restrictions: on 10 September 2014, the Administrative Court of Hamburg (VG Hamburg) already dismissed the lawsuit we brought against restrictions of the advertising permit. Our appeal against the restrictions of the brokerage permit was most recently rejected in the second instance by the Higher Administrative Court of Hamburg (OVG Hamburg) on 22 June 2017. Although OVG Hamburg ruled that virtually all restrictions of the brokerage permit, in particular the regionalisation duty, were lawful, it declared that the restrictions resulting from the strict age verification duty were inappropriate and thus legally invalid. It is possible that the Federal Administrative Court (BVerwG) may uphold our last instance appeal and thus confirm the illegality of these and other restrictions. This may also have a positive effect on the decisions of higher instances in the proceedings against the advertising permit restrictions. We expect the BVerwG to announce its decision in the course of 2018. The appeal against the advertising permit restrictions was granted on 19 December 2016. A decision of the OVG can be expected within one year of the BVerwG's ruling.

Significant opportunities result from:

- *Simplification or removal of age verification:* In order to ensure the protection of minors, the issued permit requires the implementation of measures for identification and authorisation in compliance with the guidelines of the Commission for the Protection of Minors in the Media (KJM) although legislators had explicitly deleted this obligation in the draft GlüStV. One example of such KJM-compliant processes is the »Post-Ident« process. Implementing such an age verification process involves meeting numerous conditions and regulations when acquiring new customers. Should the requirements for age verification be removed or eased – thus simplifying the registration process – this may reduce the cancellation rates of our customers during registration.
- *Removal of advertising restrictions:* In the course of the appeal proceedings, significant restrictions of the advertising permit – in particular with regard to permitted discounts and advertising content – may be lifted. Their removal might improve the efficiency of our marketing activities, based among other things on our marketing expenses and new customer figures.

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.

Enforcement of advertising ban for secondary lottery offerings

High-reach TV advertising is particularly well suited to giving consumers the impression that the product being advertised complies with German law. There is therefore a significant legalisation effect for the advertised brands, even though the games of chance being offered by these brands are not allowed in Germany. Enforcing the existing bans on prohibited offerings could prevent this effect and substantially limit the strong growth of products not allowed in Germany. As a result, the efficiency of our marketing efforts – also with regard to our marketing expenses and new customer figures – could be increased significantly.

Taxation of secondary lottery offerings

As of 1 January 2015, all services provided electronically in the European Union have been subject to VAT according to the country of destination principle. Vendors must therefore pay taxes in the country in which the recipient (customer) resides (previously country of origin principle). According to this rule, secondary lottery providers should have to pay VAT on sales to German customers. As far as the Company is informed, these vendors are not yet being taxed. Secondary lottery providers have been able to use the higher margins resulting from this situation for advertising purposes in particular, thus achieving a clear competitive advantage. As far as the Company is informed, the Federal Ministry of Finance, in consultation with the federal states, has been dealing with the topic since last year and aims to tax these offerings as of the first half of 2018. However, it is still unclear for example whether billings or gross gaming revenues (after the payout of winnings) are to be taxed. Any taxation of secondary lottery providers though would reduce their margin advantage. This would at least reduce the unfair competition with those brokers holding permits, such as Lotto24.

Forecast report

Lotto24 is the leading German provider of state-licensed lotteries via the Internet. 2017 was a very exciting year for us: we enjoyed further growth and not only passed the 1.5 million customer mark, but also reached break-even for the first time and continued to expand our product portfolio. As a result, we further strengthened our position as the leader in Germany's growing market for online lotteries and look forward to continuing Lotto24's success story in 2018.

Expected earnings position

In 2018, we plan to increase our marketing investment in order to extend our market leadership as an online provider of state-licensed lotteries. We expect to raise billings by 15% to 20% with a growing number of new customers and increased CPL. Moreover, we anticipate a slight year-on-year improvement in gross margin. Depending on external conditions – especially the jackpot trend – and marketing investments to attract new customers, both EBIT and net profit will continue to be slightly above the break-even point.

Expected financial position

Despite growing revenue streams from the year-on-year rise in billings and an improvement in gross margin, we expect an overall increase in use of funds for fiscal year 2018 due to higher marketing investment and other outflows.

On 31 December 2017, we held cash and other financial assets totalling EUR 8,271 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.

At our Annual General Meeting on 12 May 2015, the Executive Board was also authorised to raise share capital by up to EUR 4,391,798 – or almost 20% of share capital – in the period up to 11 May 2020 (Authorised Capital 2015). After our capital increase for cash contributions in 2015, under exclusion of subscription rights, 2,195,899 new shares with dividend entitlement were issued. Due to the remaining authorised capital, the Executive Board is authorised to raise share capital by a further EUR 2,195,899.

Overall statement on the expected development of Lotto24 AG

We have many years of sector and management experience, an attractive range of products and services, and are well positioned as market leader in the growing online lottery market. We believe we are therefore well prepared for the future and are confident that we can not only consolidate and extend our lead as Germany's leading online provider of lottery products but also benefit from the enormous potential of the online lottery segment.

DISCLOSURES PURSUANT TO TAKEOVERS

The following disclosures are in compliance with Section 289a German Commercial Code (HGB):

Composition of subscribed capital

As of 31 December 2017, 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 2017, 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)	15.09% (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 of Association 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 21 of the notes to the consolidated financial statements or in Section 4 of the Company's Articles of Association.

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 program (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 2017 was as follows:

BENEFITS GRANTED				
Petra von Strombeck, Chief Executive Officer as of 01.07.2012				
in EUR thousand	2017	2017 (min.) variable	2017 (max.) variable	2016
Fixed remuneration	300	-	-	300
Benefits	-	-	-	-
Total (fixed)	300	-	-	300
One-year variable remuneration	112	-	400	243
Multi-year variable remuneration	227	-	500	265
Phantom shares 2013–2017 (4 years) ¹⁾	-	-	-	-
Phantom shares 2014–2018 (4 years) ¹⁾	-	-	-	-
Phantom shares 2015–2019 (4 years) ¹⁾	-	-	-	150
Phantom shares 2016–2020 (4 years) ¹⁾	90	-	150	115
Phantom shares 2017–2021 (4 years) ¹⁾	54	-	150	-
KPI-based remuneration (3 years) ²⁾	-	-	-	-
Revenues 2017–2020 (3 years) ²⁾	39	-	100	-
EBIT 2017–2020 (3 years) ²⁾	44	-	100	-
Total (variable)	339	-	900	508
Remuneration expense	-	-	-	-
Total remuneration	639	-	900	808

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

Magnus von Zitzewitz, Member of Executive Board
as of 01.07.2012

in EUR thousand	2017	2017 (min.) variable	2017 (max.) variable	2016
Fixed remuneration	200	-	-	200
Benefits	-	-	-	-
Total (fixed)	200	-	-	200
One-year variable remuneration	126	-	260	165
Multi-year variable remuneration	146	-	325	172
Phantom shares 2013–2017 (4 years) ¹⁾	-	-	-	-
Phantom shares 2014–2018 (4 years) ¹⁾	-	-	-	-
Phantom shares 2015–2019 (4 years) ¹⁾	-	-	-	97
Phantom shares 2016–2020 (4 years) ¹⁾	58	-	97	75
Phantom shares 2017–2021 (4 years) ¹⁾	35	-	98	-
KPI-based remuneration (3 years) ²⁾	-	-	-	-
Revenues 2017–2020 (3 years) ²⁾	25	-	65	-
EBIT 2017–2020 (3 years) ²⁾	28	-	65	-
Total (variable)	272	-	585	337
Remuneration expense	-	-	-	-
Total remuneration	472	-	585	537

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

Kai Hannemann, Member of Executive Board
from 01.07.2016 to 31.01.2018

in EUR thousand	2017	2017 (min.) variable	2017 (max.) variable	2016
Fixed remuneration	180	-	-	90
Benefits	-	-	-	-
Total (fixed)	180	-	-	90
One-year variable remuneration	112	-	160	44
Multi-year variable remuneration	90	-	260	46
Phantom shares 2013–2017 (4 years) ¹⁾	-	-	-	-
Phantom shares 2014–2018 (4 years) ¹⁾	-	-	-	-
Phantom shares 2015–2019 (4 years) ¹⁾	-	-	-	-
Phantom shares 2016–2020 (4 years) ¹⁾	-	-	60	46
Phantom shares 2017–2021 (4 years) ¹⁾	-	-	120	-
KPI-based remuneration (3 years) ²⁾	-	-	-	-
Revenues 2017–2020 (3 years) ²⁾	-	-	40	-
EBIT 2017–2020 (3 years) ²⁾	-	-	40	-
Multi-year variable remuneration 2016	90	-	-	-
Total (variable)	202	-	420	90
Remuneration expense	-	-	-	-
Total remuneration	382	-	420	180

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 20 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 20 thousand in each case

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 410 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 0 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, is to receive multi-year variable remuneration for 2016 of EUR 90 thousand. There will be no additional payment of multi-year variable remuneration for the years 2017 and 2018. Kai Hannemann will receive basic remuneration for 2018 of EUR 180 thousand.

BENEFITS RECEIVED

in EUR thousand	Petra von Strombeck, Chief Executive Officer 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	
	2017	2016	2017	2016	2017	2016
Fixed remuneration	300	300	200	200	180	90
Benefits	-	-	-	-	-	-
Total (fixed)	300	300	200	200	180	90
One-year variable remuneration	243	247	165	146	44	-
Multi-year variable remuneration	396	371	257	241	-	-
Phantom shares 2012-2016 (4 years) ¹⁾	-	371	-	241	-	-
Phantom shares 2013-2017 (4 years) ¹⁾	396	-	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⁾	-	-	-	-	-	-
KPI-based remuneration (3 years) ²⁾	-	-	-	-	-	-
Revenues 2017-2020 (3 years) ²⁾	-	-	-	-	-	-
EBIT 2017-2020 (3 years) ²⁾	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total (variable)	639	619	422	387	44	-
Remuneration expense	-	-	-	-	-	-
Total remuneration	939	919	622	587	224	90

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 2017 and was remunerated as follows:

SUPERVISORY BOARD REMUNERATION

in EUR thousand	2017	2016
Prof. Willi Berchtold	63	63
Jens Schumann	38	38
Thorsten Hehl	25	25
Total	125	125

Hamburg, 22 March 2018

The Executive Board

05 |

FINANCIAL STATEMENTS

2017 was another exciting year for us: we passed the 1.5 million customer mark and reached break-even for the first time. We have thus strengthened our leading position in the growing German market for online lotteries.

INCOME STATEMENT

FROM 1 JANUARY TO 31 DECEMBER ACCORDING TO IFRS

in EUR thousand	Notes	2017	2016	Q. IV 2017	Q. IV 2016
Billings		220,736	200,520	56,163	58,968
Remitted stakes (less commissions)		-195,520	-177,762	-49,711	-51,824
Revenues	5	25,216	22,759	6,452	7,145
Other operating income	6	38	58	17	17
Total performance		25,254	22,816	6,470	7,161
Personnel expenses	7	-8,873	-8,239	-1,914	-2,343
Amortisation/depreciation on intangible assets and property, plant and equipment	15, 16	-1,035	-1,247	-252	-392
Other operating expenses	8	-14,334	-17,251	-3,796	-4,675
Result from operating activities (EBIT)		1,013	-3,921	508	-249
Revenues from financial activities	9	10	68	-	-
Expenses from financial activities	9	-303	-359	-51	-102
Financial result	9	-293	-292	-51	-102
Net profit before taxes		720	-4,213	457	-351
Income taxes	10	1,813	1,891	754	-626
Net profit (after taxes)		2,533	-2,322	1,210	-977
Earnings per share (undiluted and diluted, in EUR/share)		0.10	-0.10	0.05	-0.04
Weighted average of ordinary shares outstanding (undiluted and diluted, in shares)		24,154,890	24,154,890	24,154,890	24,154,890

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	2017	2016	Q. IV 2017	Q. IV 2016
Net profit for the period		2,533	-2,322	1,210	-977
Other comprehensive income to be reclassified to the income statement in subsequent periods					
Revaluation gains (+)/losses (-) from available-for-sale financial assets	11	9	74	-	-6
Income tax effects	10	-3	-24	-	2
Other comprehensive income after taxes	25	6	50	-	-4
Total comprehensive income after taxes		2,538	-2,272	1,210	-982

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	31.12.2017	31.12.2016
Current assets				
Cash and cash equivalents		11	8,271	9,481
Other financial assets		11	-	697
Trade receivables		12	179	274
Other assets and prepaid expenses		13	5,998	11,669
Current assets, total			14,448	22,121
Non-current assets				
Goodwill		14	18,850	18,850
Intangible assets		15	554	445
Property, plant and equipment		16	1,602	1,404
Deferred tax assets		10	7,239	5,429
Non-current assets, total			28,245	26,128
ASSETS			42,693	48,250

EQUITY AND LIABILITIES	in EUR thousand	Notes	31.12.2017	31.12.2016
Current liabilities				
Trade payables		17.1	1,416	1,957
Other liabilities		17.2	12,567	18,821
Short-term provisions		18	1,840	1,599
Current liabilities, total			15,823	22,377
Non-current liabilities				
Interest-bearing financial loans		19	488	2,257
Long-term provisions		20	1,732	1,525
Non-current other liabilities		21	22	-
Non-current liabilities, total			2,242	3,782
Equity				
Subscribed capital		22	24,155	24,155
Capital reserves		22	2,415	41,012
Other reserves		22	-	-6
Retained earnings		22	-1,941	-43,070
Equity, total			24,629	22,091
EQUITY AND LIABILITIES			42,693	48,250

CASH FLOW STATEMENT

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

in EUR thousand	2017	2016
Net profit before tax	720	-4,213
Adjustments for:		
Amortisation/depreciation on non-current assets	1,035	1,247
Financial income/financial expenditure	293	292
Other non-cash expenses/income	4	11
Profit from sale or disposal of non-current assets	2	2
Changes in:		
Trade receivables	95	-105
Other assets and prepaid expenses	5,672	-7,224
Trade payables	-541	349
Other liabilities	-5,232	8,751
Short-term provisions	241	612
Non-current other liabilities	22	-
Long-term provisions	207	235
Interest received	10	68
Interest paid	-403	-344
Taxes paid	-	-
Cash flow from operating activities	2,125	-319
Payments received (+)/disbursements (-) for financial instruments	5	4,650
Investments in intangible assets	-490	-549
Investments in tangible assets	-854	-90
Net losses (-)/gains (+) from asset disposals	0	2
Cash flow from investing activities	-1,339	4,014
Payments received (+) from taking out financing loans	610	2,039
Disbursements (-) for redeeming financing loans	-3,302	-629
Cash flow from financing activities	-2,692	1,410
Change in available funds	-1,907	5,105
Available funds at the beginning of the period	10,178	5,073
Available funds at the end of the period	8,271	10,178
Composition of cash, cash equivalents and securities at the end of the period	8,271	10,178
Cash and cash equivalents	8,271	9,481
Available-for-sale financial investments (available <3 months)	-	697

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 2016	24,155	41,012	-56	-40,748	24,362
Net profit	-	-	-	-2,322	-2,322
Other comprehensive income	-	-	50	-	50
Total comprehensive income	-	-	50	-2,322	-2,272
As at 31 December 2016	24,155	41,012	-6	-43,070	22,091
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	0	-1,941	24,629

Explanations are provided in Note 22.

NOTES

TO THE FINANCIAL STATEMENTS ACCORDING TO IFRS
FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2017

1 GENERAL

Lotto24 AG, Hamburg (hereinafter also referred to as Lotto24) was formed in Hamburg on 13 August 2010 as Tipp24 Deutschland GmbH. The sole founder was ZEAL Network SE, London, Great Britain, (formerly Tipp24 SE, Hamburg, Germany). With a resolution of the shareholders' meeting on 27 April 2012, Lotto24's legal status was changed to that of a public limited company (»Aktiengesellschaft«). The resolution was entered in the Commercial Register of the District Court of Hamburg under the number HRB 123037 on 16 May 2012. Lotto24 shares have been admitted for trading on the Regulated Market (Prime Standard) of the Frankfurt Stock Exchange since 3 July 2012.

Until its spin-off from the ZEAL Group, Lotto24 was included in the consolidated financial statements of ZEAL Network SE, London, Great Britain, as a wholly-owned subsidiary. The spin-off was concluded on the basis of a resolution of the ZEAL Annual General Meeting on 22 June 2012. The spin-off was enacted by means of a distribution of a dividend in kind on 26 June 2012 during which each shareholder of ZEAL Network SE received one Lotto24 share for each ZEAL share held.

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) AktG.

The Company's parent company has been Othello Vier Beteiligungs GmbH & Co. KG, Hamburg, Germany, since 16 July 2015. 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.

In accordance with Section 312 (3) German Stock Corporation Act (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.«

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. It is domiciled in Hamburg at the address: Strassenbahnring 11, 20251 Hamburg, Germany. The balance sheet date is 31 December 2017 and the fiscal year 2017 covered the period from 1 January 2017 to 31 December 2017.

These separate financial statements were prepared with a resolution of the Executive Board on 22 March 2018 and subsequently forwarded to the Supervisory Board for examination and approval. Publication was authorised with a resolution of the Executive Board on 22 March 2018.

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 2017 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 315e (1) German Commercial Code (HGB).

New and revised standards applied in 2017

Compared to the separate financial statements according to IFRS as of 31 December 2016, the following new mandatory standards are to be applied by Lotto24 AG:

»Annual Improvements of IFRS 2014–2016 Cycle« (from/after 1 January 2017/1 January 2018)

The idea behind the Annual Improvements Project is to make non-urgent but necessary amendments to existing IFRSs that are not implemented in other major projects. It was issued in December 2016.

There were no effects on our separate financial statements.

Amendments to IAS 7 »Statement of Cash Flows« (from/after 1 January 2017)

The amendments call for extended disclosures that will help users of financial statements make better evaluations about changes in liabilities arising from financing activities.

There were no effects on our separate financial statements.

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. Lotto24 intends to adopt the amendments to these standards no later than as of their effective date:

IFRS 9 »Financial Instruments: Classification and Measurement« (from/after 1 January 2018)

In July 2014, the IASB published the final version of IFRS 9 »Financial Instruments«. The new standard harmonises guidance on the classification and measurement of financial assets and financial liabilities, and introduces a new impairment model for financial assets. In addition, the new hedge accounting regulations published in November 2013 were included in the final version of IFRS 9 and the previous requirements of IAS 39 thus replaced.

The Company will apply IFRS 9 for the first time for the fiscal year beginning on 1 January 2018; in accordance with the transitional provisions of IFRS 9, no adjustment will be made to the prior-year figures.

Based on an analysis of the financial assets and financial liabilities as of 31 December 2017, and the facts and circumstances existing at this time, we have made the following assessment of the impact of IFRS 9 on the annual financial statements:

Classification and measurement

- Other financial assets classified as held-to-maturity financial investments in the previous years are held within a business model whose objective is to collect the contractual cash flows. These contractual cash flows are solely payments of interest and principal on the nominal amount outstanding. Accordingly, these other financial assets will be measured at amortised cost upon the application of IFRS 9.
- All other financial assets will be held within a business model whose objective is to collect the contractual cash flows. These contractual cash flows are solely payments of interest and principal on the nominal amount outstanding. Consequently, all other financial assets will be measured at amortised cost upon the application of IFRS 9.
- Financial liabilities will continue to be measured as is currently the case under IAS 39.

Impairment

Financial assets measured at amortised cost will be subject to the new impairment provisions of IFRS 9.

Lotto24 expects to apply the simplified impairment model for trade receivables, according to which a risk provision is to be recognised for all instruments in the amount of the losses expected over the remaining term regardless of their credit quality.

All in all, we expect that the application of the new impairment model will result in the recognition of anticipated losses for the corresponding instruments but not lead to significantly higher impairment charges.

Hedge accounting

Lotto24 does not carry any hedging instruments.

We expect that the initial application of IFRS 9 will have only a minor impact.

IFRS 15 »Revenue from Contracts with Customers« (from/after 1 January 2018)

In May 2014, the IASB issued the new standard IFRS 15. It includes a five-step model that must be applied when recognising revenue from all contracts with customers. It determines the point in time (or period of time) and amount in which revenue must be recognised. The standard also introduces new, extensive disclosures in the notes. In April, the IASB published clarifications on IFRS 15 regarding the following topics:

- Identify the performance obligations (regarding independent identifiability within the context of the contract),
- Principal-agent relationships (regarding assessment of the control of goods or services prior to transfer to the customer),
- Licencing (regarding determination of the type of license granted as well as to revenue- and usage-related licence fees), and
- Transitional provisions (regarding practical relief for first-time application of the standard).

Lotto24 recognises revenues in the following ways:

- 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.

We have come to the conclusion that these commissions and additional fees each constitute a performance obligation. Revenues must be recognised when control over the corresponding services is transferred to the customer. Revenue is recognised at a point in time. Consequently, revenues must be recognised when control over the corresponding services is transferred to the customer. With regard to the allocation of transaction prices to the individual performance obligations based on the individual sale prices, we assume that this does not deviate significantly from the current allocation. We also do not expect any deviation from our previous practice with regard to the time when revenues are recognised. Lotto24 will retroactively apply the standard for the fiscal year beginning on 1 January 2018, in other words the comparative period will be presented in accordance with IFRS 15.

Due to our business model and the revenue definition used by Lotto24, there will be no material effects on our separate financial statements or financial position and performance – with the exception of the expected additional disclosures on initial application of IFRS 15.

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 statement of financial position. For the lessor, there are only minor changes compared to accounting according to IAS 17 »Leases«. As a consequence of initial adoption, it is expected that the majority of rental and leasing obligations currently disclosed in section 28 »Contingent liabilities and other financial obligations and legal risks« will have to be disclosed in the statement of financial position, thus increasing the total amounts. Lotto24 AG has launched a project for the introduction of IFRS 16 and continues to analyse the impact of application on financial reporting. In the first project phase, the respective project team examined the main leasing agreements, especially with regard to those agreements not previously classified as finance leases. The findings will be validated in the subsequent project phase and further analysed with regard to their quantitative impact on accounting. As far as is currently known, the balance sheet total will increase by the amount of future liabilities from agreements currently classified as operating leases, together with a corresponding increase in non-current assets. No significant impact on equity is expected from initial application.

In addition, the IASB has revised or published further standards and interpretations that are applicable in the future but will not have a material impact on the separate financial statements.

2.1.2 Basis of preparation

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

2.1.3 Measurement currency

The measurement 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 values 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 value. 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.

Deferred tax liabilities

Deferred tax liabilities are recognised for those items where the IFRS result before taxes is higher than the corresponding taxable profit. Causes may include assets carried at a higher value or liabilities carried at a lower value in the IFRS balance sheet compared to the tax balance sheet. Deferred tax liabilities may also result from assets which were only recognised in the IFRS balance sheet or liabilities which were only carried in the tax balance sheet.

2.1.5 Goodwill

As a result of the deregulation of the gaming market in Germany, the German lottery business of ZEAL Network SE, consisting of Lotto24 AG, was spun off in accordance with company law. To this end, the shareholder meeting of Lotto24 AG on 27 April 2012 resolved on a capital increase for contribution in kind. The contribution in kind was made in the form of online lottery brokerage operations. ZEAL Network SE concluded the corresponding contribution agreement with the Company on 30 April 2012 with the aim of enabling Lotto24's permanent online-based brokerage of lotteries of DLTB as a legally separate spin-off of ZEAL Network SE.

In accordance with IFRS 3, this transaction was treated as a business combination as the prerequisites for business operations pursuant to IFRS 3.B7-B12 were in place. The value of the contribution was measured at EUR 19.9 million and capitalised as goodwill of EUR 18.9 million after deduction of identifiable assets. The resulting goodwill has no determinable useful life and is not amortised in scheduled amounts (impairment-only approach). Instead of amortisation, the asset is subjected to an annual impairment test according to IAS 36. We continually monitor and update the relevant technical, market-based, economic and legal parameters and conditions.

2.1.6 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.

2.1.7 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.

2.1.8 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 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. 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 its value in use, 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. 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 value 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.

2.1.9 Recognition and measurement of financial assets

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

Financial instruments are divided into four categories: held-for-trading financial instruments, held-to-maturity financial instruments, loans and receivables, and available-for-sale financial investments.

Financial instruments acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as held-for-trading financial instruments.

Financial instruments with fixed or determinable payments and fixed maturity that Lotto24 has the positive intent and ability to hold to maturity are classified as held-to-maturity – except for loans and receivables originated by us.

All other financial instruments are classified as available-for-sale – except for loans and receivables originated by us.

We disclose held-to-maturity financial instruments with a residual maturity of up to twelve months and available-for-sale financial assets under current assets.

Purchases and sales of financial instruments are recognised on the trade date.

Financial assets are initially recognised at fair value. In the case of financial assets other than those classified as at fair value through profit or loss, we also include transaction costs directly attributable to the acquisition of the assets.

Held-for-trading financial instruments and available-for-sale financial assets are subsequently measured at fair value without any deduction for transaction costs.

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

Gains and losses on the fair value measurement of held-for-trading financial instruments are recognised in profit or loss in the period in which they arise. Held-to-maturity financial instruments are carried at amortised cost using the effective interest rate method.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not traded in an active market. After initial recognition, such financial assets are measured at amortised cost using the effective interest method less any necessary writedowns in the course of a subsequent valuation.

We eliminate financial assets from the balance sheet if we lose the disposing power over the contractual rights which form the basis for the financial asset. A financial liability is eliminated if the obligation on which the liability is based is fulfilled, terminated or expired.

2.1.10 Recognition and measurement of financial liabilities

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs. 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 expired.

2.1.11 Other assets and trade receivables

Trade receivables are stated at the nominal or lower recoverable value. In the case of returned direct debits from customer payments, including fees, we expense lump-sum valuation allowances depending on the current status of dunning and collecting measures, whereby the allowance rates are based on analyses and past experience of defaults. Following an initial payment reminder, we collect receivables via a three-stage dunning process ending in transfer to a collection agency and, where appropriate, legal default action. Those items with no final result are fully expensed and the corresponding receivables are derecognised.

2.1.12 Cash and short-term financial assets

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

2.1.13 Trade payables and other liabilities

We disclose trade payables and other liabilities at amortised cost.

2.1.14 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.

2.1.15 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. IFRS 2 distinguishes between three different types of share-based payment:

1. Transactions which are settled with equity instruments (equity-settled share-based transactions) and measured using fair value at the time of granting,
2. Transactions which are settled in cash, but whose amount depends on an equity instrument of the Company (cash-settled share-based payment transactions) and are measured using fair value as of the balance sheet date,
3. Transactions in which the respective entities can each choose whether to settle the transaction in cash or by issuing an equity instrument.

The Company's share-based payment transactions (phantom shares) are to be classified as cash-settled share-based payment transactions.

With reference to Lotto24's fair value measurement of Type 2 transactions, please refer to Note 20. The standard provides that these payment instruments for the entitled Executive Board members are to be expensed as personnel expenses.

2.1.16 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.

2.1.17 Revenues

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.

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.

In the brokerage business, revenues are recognised when the stakes have been made, the lottery ticket information passed on to the lottery organiser and confirmation of receipt has been obtained. Revenues are disclosed net of VAT, discounts, customer bonuses and rebates. 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.

2.1.18 Operating expenses

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

2.1.19 Revenues from financial activities

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

2.1.20 Expenses from financial activities

We recognise borrowing costs as an expense in the period in which they are incurred.

2.1.21 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.

2.1.22 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.

2.1.23 Events after the balance sheet date

Events after the balance sheet date are favourable or unfavourable events which occur between the end of the reporting period and the date on which the separate financial statements are prepared. Events that provide further material evidence of conditions that existed at the end of the reporting period (adjusting events) are recognised in the separate financial statements. Significant events that provide evidence of conditions that existed after the end of the reporting period (non-adjusting events) are discussed in Note 26.

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.

For the purpose of the cash flow statement, available funds comprised the following:

in EUR thousand	31.12.2017	31.12.2016
Cash and cash equivalents	8,271	9,481
Available-for-sale financial investments (available <3 months)	-	697
Total	8,271	10,178

The short-term securities which are readily convertible and subject only to minor value fluctuation risks, and which were previously classified as cash equivalents, were sold in the course of 2017. Consequently, this item amounted to EUR 0 thousand at the end of the reporting period (prior year: EUR 697 thousand).

in EUR thousand	31.12.2017	31.12.2016
Reconciliation to the balance sheet:		
Available-for-sale financial investments (available <3 months)	-	697
Other financial assets	-	697

Liabilities from financing activities comprise the following:

	31.12.2017	Cash	Non-cash			31.12.2016
			Acquisi- tion	Change in fair value	Other changes	-
in EUR thousand						
Reconciliation to the balance sheet:						
Short-term interest-bearing financial loans ¹⁾	2,283	-3,302	-	-	2,379	3,206
Long-term interest-bearing financial loans ²⁾	488	610	-	-	-2,379	2,257
Total liabilities from financing activities	2,771	-2,292	-	-	-	5,463

¹⁾ Recognised in the following balance sheet item: Other current liabilities

²⁾ Recognised in the following balance sheet item: Non-current interest-bearing financial loans

4 SEGMENT REPORTING

Apart from the online brokerage of state-licensed lotteries in Germany there are no reportable segments.

5 REVENUES

in EUR thousand	2017	2016
Revenues	25,216	22,759
Total	25,216	22,759

Against the backdrop of an exceptionally weak jackpot trend in the second half of 2017 – especially compared to the high jackpots of the previous year – the increase in billings resulted in higher revenues of EUR 25,216 thousand (prior year: EUR 22,759 thousand). In addition to agreed margins/quantity scales negotiated with certain state lottery companies, the increase in revenues also resulted from the higher margins from lotto clubs, which we successfully launched in February 2016, as well as from the roll-out of a new product in the fourth quarter of 2017 (»Deutsche Weihnachtslotterie«). In the reporting period, the gross margin improved to 11.4% (prior year: 11.3%).

Thanks to further successful marketing activities, we also gained many new customers in 2017. As a result, the number of registered customers as of 31 December 2017 rose to 1,573 thousand (prior year: 1,282 thousand). It developed over the year as follows:

in thousand	2017	2016
Number of registered customers on 31 December of the previous year	1,282	883
First quarter (new customers)	95	106
Second quarter (new customers)	66	69
Third quarter (new customers)	55	111
Fourth quarter (new customers)	75	113
Number of registered customers on 31 December	1,573	1,282

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 2017, the activity rate of Lotto24 customers amounted to 23.2% (prior year: 27.0%).

6 OTHER OPERATING INCOME

In fiscal year 2017, other operating income of EUR 38 thousand (prior year: EUR 58 thousand) mainly comprised income from offset benefits in kind (EUR 29 thousand; prior year: EUR 26 thousand).

In the previous year, other operating income included stake refunds from state lottery companies due to technical errors in gaming operations (EUR 24 thousand).

7 PERSONNEL EXPENSES

In fiscal year 2017, Lotto24 AG had higher personnel expenses than in the same period last year.

in EUR thousand	2017	2016
Salaries	7,911	7,273
Social security contributions	962	966
Total	8,873	8,239

The increase in personnel expenses in 2017 was mainly due to the change in the Executive Board member for IT, the year-on-year increase in the valuation of long-term multi-year variable remuneration components for Executive Board members (EUR 1,482 thousand; prior year: EUR 1,283 thousand) and the rise in headcount. Details are provided in Note 20.

8 OTHER OPERATING EXPENSES

in EUR thousand	2017	2016
Marketing expenses	7,890	10,824
Direct operating expenses	2,519	2,464
Indirect operating expenses	3,924	3,964
Total	14,334	17,251

As of 31 December 2017, other operating expenses fell year on year by EUR 2,917 thousand, from EUR 17,251 thousand to EUR 14,334 thousand.

The following factors influenced this development:

- In view of the exceptionally weak jackpot trend in the second half of 2017 – especially compared to the high jackpots of the previous year – marketing expenses in 2017 as a whole was down on the previous year at EUR 7,890 thousand (prior year: EUR 10,824 thousand).
- Due to increased billings and a change in the payment method mix, direct costs of operations (mainly costs for billings-related payment transactions as well as B2B and business services) rose from EUR 2,464 thousand to EUR 2,519 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 fell from EUR 3,964 thousand to EUR 3,924 thousand. There was a particularly strong decline in the use of external consultancy services to EUR 1,648 thousand (prior year: EUR 1,996 thousand). At the same time, maintenance/service costs rose to EUR 817 thousand (prior year: EUR 587 thousand).

9 FINANCIAL RESULT

in EUR thousand	2017	2016
Revenues from financial activities	10	68
Expenses from financial activities	-303	-359
Total	-293	-292

Revenues from financial activities result mainly from interest income accrued by interest-bearing investments of surplus liquidity. Expenses from financial activities largely relate to interest expenses for existing loans.

10 INCOME TAXES

Income taxes paid or payable as well as deferred taxes are recognised as income taxes. Lotto24 did not generate a positive tax result in fiscal year 2017 and paid no income taxes. We recognised deferred tax assets on loss carryforwards 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 2016 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 2017 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	2017	2016
Actual tax expense		
Tax income from the recognition of deferred tax assets on loss carryforwards due to temporary differences	2,218	2,296
Tax expense from the recognition of deferred tax liabilities due to temporary differences	-406	-406
Deferred taxes	1,813	1,891
Actual and deferred income taxes	1,813	1,891

in EUR thousand	2017	2016
Tax reconciliation		
Net profit before taxes	720	-4,213
Tax rate	32.28%	32.28%
Expected tax expense	-232	1,360
Additions according to Section 8 GewSt	-17	-18
Tax effects from operating expenses not fully deductible	-22	-21
Capitalisation of previously unrecognised loss carryforwards	2,084	595
Deferred taxes on current/historic loss carryforwards not capitalised due to change in shareholders	-	-
Others	-	-25
Actual and deferred income taxes	1,813	1,891

Deferred tax assets and liabilities developed as follows:

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

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

in EUR thousand	31.12.2016	Income(+)/ expense(-)	Neutral (through equity)	01.01.2016
Deferred tax assets				
Deferred tax assets due to temporary differences	20	10	-24	34
Deferred tax assets due to tax loss carryforwards	7,234	2,287	-	4,947
	7,254	2,296	-24	4,981
Netting with deferred tax liabilities	-1,825			
Total	5,429			

in EUR thousand	31.12.2016	Income(+)/ expense(-)	Neutral (through equity)	01.01.2016
Deferred tax liabilities				
Deferred tax liabilities due to temporary differences (income statement)	1,825	-406	-	1,420
Deferred tax liabilities due to temporary differences (equity)	-	-	-	-
	1,825	-406	-	1,420
Netting with deferred tax assets	-1,825			
Total	0			

The income taxes of EUR 1,813 thousand (prior year: EUR 1,891 thousand) disclosed in the income statement result from the total changes in deferred tax assets and deferred tax liabilities affecting the income statement. The income tax effects of changes in equity amounting to EUR -3 thousand (prior year: EUR -24 thousand) are explained in the notes on the statement of comprehensive income, the statement of changes in equity and Note 11.

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 OTHER FINANCIAL ASSETS

in EUR thousand	31.12.2017	31.12.2016
Cash		
Bank balances	8,271	9,481
Cash on hand	0	0
Total	8,271	9,481

Cash and cash equivalents are almost entirely held with three banks.

in EUR thousand	31.12.2017	31.12.2016
Reconciliation to other financial assets		
Other financial assets		
Available-for-sale financial investments	-	697
Total	-	697

All available-for-sale financial investments were sold during the course of 2017. A change in equity prior to income tax effects of EUR 9 thousand (prior year: EUR 74 thousand) was recognised for these assets on the basis of their evaluation.

in EUR thousand	31.12.2017	31.12.2016
Reconciliation to available funds		
Cash	8,271	9,481
Other financial assets	-	697
Available funds	8,271	10,178

12 TRADE RECEIVABLES

in EUR thousand	31.12.2017	31.12.2016
Receivables from customers	167	246
Receivables from amounts passed on	8	24
Receivables from affiliated companies	4	5
Total	179	274

Trade receivables mainly comprise receivables from amounts passed on, reimbursement claims and open billing amounts from customers, which are all due in less than one year. Total value adjustments of EUR 511 thousand (prior year: EUR 450 thousand) were expensed for impairment risks in nominal receivables from customers on the basis on past experience.

13 OTHER ASSETS AND PREPAID EXPENSES

in EUR thousand	31.12.2017	31.12.2016
Receivables from gaming operations	4,450	10,149
Deposits	1,011	976
Prepaid expenses	531	537
Tax receivables (VAT)	-	7
Others	6	-
Total	5,998	11,669

As a result of the exceptionally weak jackpot situation for the »Lotto 6aus49« and »EuroJackpot« lotteries, receivables from gaming operations fell and comprise receivables on customer winnings to be forwarded, as well as receivables from current payment processing and the Company's own brokerage commission claims.

Prepaid expenses mainly refer to maintenance and support services for software and hardware, as well as marketing services. In particular, deposits include collateral to be provided to the state lottery companies.

As in the previous year, all other assets and prepaid expenses are due in less than one year. As at the balance sheet date, there were no indications of impairment which would have entailed the recognition of an impairment loss.

With the exception of tax receivables (VAT) and prepaid expenses, other assets and prepaid expenses comprise financial assets.

14 GOODWILL

The development of goodwill is presented in the table below.

in EUR thousand	2017	2016
Acquisition costs as of 1 January	18,850	18,850
Additions (purchased from third parties)	-	-
Additions (self-provided)	-	-
Disposals	-	-
Acquisition costs as of 31 December	18,850	18,850
Accumulated acquisition costs as of 1 January	-	-
Depreciation of the period	-	-
Disposals	-	-
Accumulated acquisition costs as of 31 December	-	-
Net book value as of 31 December	18,850	18,850

Lotto24 AG examines goodwill at least once per year at the end of the reporting period with regard to its future economic benefit. As Lotto24 AG has no segments requiring reporting, goodwill is allocated to the legal entity Lotto24 as the cash-generating unit (CGU). The test compares the carrying value 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. As market maturity has now been reached, it is appropriate to also use a cost of capital approach for detailed planning based on the capital asset pricing model (CAPM), rather than a pure venture capital (VC) approach. For the discounting of cash flows in the detailed planning period, the Company used CAPM-based costs of capital after taxes of 8.15% throughout (prior year: use of a VC-based cost of capital of 12.0%). The corresponding average cost of capital before taxes amounted to 9.12% (prior year: 11.28%).

The return requirements of previous years were based on greater uncertainties from the establishment of business and the regulatory environment. Compared to the previous years, the general assessment parameters relevant to the finance market and the return requirement range of investors have decreased. The main reason for this is in particular the successful attainment of market maturity now within the scope of the current permits and the regulatory environment.

At the end of the detailed planning period, the years after 2023 (prior year: after 2022) apply a reconciled perpetual annuity based on the capital asset pricing model CAPM discounted with an average cost of capital of 8.15% (prior year: 9.9%). The calculation of the perpetual annuity is based on a sustainable, average growth rate (perpetual annuity) of around 2.0% (prior year: 1.4%). For discounting purposes, we consider the growth rate as the discount on the cost of capital.

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	2017	2016
Acquisition costs as of 1 January	1,673	1,124
Additions (purchased from third parties)	490	549
Disposals	-64	-
Acquisition costs as of 31 December	2,098	1,673
Accumulated depreciation as of 1 January	-1,227	-574
Depreciation of the period	-381	-653
Disposals	64	-
Accumulated depreciation as of 31 December	-1,544	-1,227
Net book value as of 31 December	554	445

The useful life of intangible assets is between one and five years. 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 ongoing development of the Lotto24 apps (EUR 178 thousand) and the expansion of licences for the development department (EUR 264 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	2017	2016
Acquisition costs as of 1 January	2,329	2,244
Additions (purchased from third parties)	854	90
Additions (self-provided)	-	-
Disposals	-23	-5
Acquisition costs as of 31 December	3,160	2,329
Accumulated depreciation as of 1 January	-925	-331
Depreciation of the period	-654	-594
Disposals	21	0
Accumulated depreciation as of 31 December	-1,558	-925
Net book value as of 31 December	1,602	1,404

The useful life of tangible assets is generally between one and five years. There are no restrictions on rights of disposal and no assets were pledged as collateral for liabilities. Additions mainly consisted of acquisitions of data centre equipment (EUR 663 thousand), acquisitions of software and hardware for workstations, and equipment for new office spaces.

There are currently no assets from financial leases.

17 CURRENT LIABILITIES

17.1 Trade payables

in EUR thousand	31.12.2017	31.12.2016
Trade payables	1,416	1,957
Total	1,416	1,957

Trade payables 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 Other liabilities

Other liabilities comprised the following items:

in EUR thousand	31.12.2017	31.12.2016
Liabilities from gaming operations	9,532	14,950
Interest-bearing loan	2,283	3,206
Amounts due in connection with taxes (VAT, payroll and church taxes) and social security	431	347
Other	228	75
Holiday obligations	90	140
Interest liabilities	3	102
Total	12,567	18,821

As of 31 December 2017, other liabilities fell to EUR 12,567 thousand (prior year: EUR 18,821 thousand). They mainly comprised liabilities from gaming operations of EUR 9,532 thousand (prior year: EUR 14,950 thousand), which were impacted by reduced billings and comparatively lower customer winnings due to the exceptionally weak jackpot situation for the »Lotto 6aus49« and »EuroJackpot« lotteries in the second half of the year. 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 loan granted by the Günther Group in September 2016 (loan: EUR 2,000 thousand; prior year: EUR 0 thousand), as well as instalments due within twelve months for IT equipment at our new data centres (hire purchase agreements: EUR 283 thousand; prior year: EUR 206 thousand). Due to its term, the loan granted by the Günther Group was carried under long-term financial loans until 31 December 2016 (see Note 19). The loan in connection with IT insourcing carried under interest-bearing loans in the previous year was terminated prematurely due to the positive liquidity trend in order to save interest (EUR 0 thousand; prior year: EUR 3,000 thousand).

As a result of reporting date effects, there was an increase in amounts due in connection with taxes – mostly from sales activities (EUR 320 thousand; prior year: EUR 246 thousand) – as well as payroll obligations (EUR 109 thousand; prior year: EUR 100 thousand). Holiday obligations were down on the previous year at EUR 90 thousand (prior year: EUR 140 thousand). The remaining other liabilities mainly comprise provisions for other personnel expenses. Interest obligations at the end of the reporting period (EUR 3 thousand; prior year: EUR 102 thousand) result from the hire purchase agreements.

With the exception of amounts due in connection with taxes and holiday obligations, the items above were exclusively financial liabilities.

18 SHORT-TERM PROVISIONS

in EUR thousand	31.12.2017	Addition	Reclassification from long-term provisions	Reversal	Utilisation	31.12.2016
Share-based remuneration (short-term)	1,057	127	930	-	-435	435
Bonus	732	732	-	-55	-1,040	1,095
Litigation costs	30	-	-	-20	-	50
Other	21	21	-	-1	-18	19
Total	1,840	880	930	-76	-1,493	1,599

Bonus provisions were formed pro rata temporis in 2017. All provisions are expected to be used within one year.

19 LONG-TERM FINANCIAL LOANS

in EUR thousand	31.12.2017	31.12.2016
Günther Group loan	-	2,000
Obligations from hire purchase agreements	488	257
Total	488	2,257

Interest-bearing financial loans comprise longer-term financial obligations which are also used for the funding of operations. Long-term financial loans include the non-current portion of hire purchase agreements for IT equipment (EUR 488 thousand; prior year: EUR 257 thousand). Due to its agreed term, the loan granted by the Günther Group in September 2016 (EUR 0 thousand; prior year: EUR 2,000 thousand) was reclassified under other current liabilities (see Note 17.2).

20 LONG-TERM PROVISIONS

in EUR thousand	31.12.2017	Addition	Reclassification to short-term provisions	Reversal	Utilisation	31.12.2016
Share-based remuneration	1,732	1,137	-930	-	-	1,525
Total	1,732	1,137	-930	-	-	1,525

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

in EUR thousand	31.12.2017	31.12.2016
Long-term obligations from leases	22	-
Total	22	-

Long-term obligations from leases include the proportion of rent-free periods in relation to the term of the lease.

22 EQUITY

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

in EUR thousand	31.12.2017	31.12.2016
Subscribed capital	24,155	24,155
Capital reserves	2,415	41,012
Other reserves	-	-6
Retained earnings	-1,941	-43,070
Total	24,629	22,091

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. In the previous year, other reserves include the result of revaluing available-for-sale financial assets after deduction of income tax effects.

Due to a legal requirement, retained earnings cannot be distributed as a dividend. As of 31 December 2017, 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 13,315 thousand (prior year: EUR 10,901 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 2017, capital reserves amount to EUR 2,415 thousand (prior year: EUR 41,012 thousand) and include the legal reserve required by Section 150 (2) AktG, which accounts for a tenth of share capital.

Until 31 December 2016, capital reserves included the capital reserve of Lotto24 AG recognised according to HGB of EUR 42,405 thousand, as well as issuance costs from equity measures conducted since 2012 of EUR 1,368 thousand, and unchanged costs for the capital increase for contribution in kind of EUR 25 thousand, which are carried in the IFRS separate financial statements as a deduction from equity.

We have adopted the reclassification of free capital reserves in excess of one tenth of share capital according to HGB, taking account of the previous issuance costs of EUR 1,368 thousand and costs for the capital increase for contribution in kind of EUR 25 thousand, which are carried in the IFRS separate financial statements as a deduction from equity, amounting to EUR 8,169 thousand (prior year: EUR 11,978 thousand) according to Section 272 (2) No. 4 HGB and the full amount of the committed capital reserves according to HGB of EUR 30,427 thousand (prior year: EUR 30,427 thousand) according to Section 272 (2) Nos.1-3 HGB to retained earnings as of 31 December 2017. This decision marks the first step towards being able to distribute dividends.

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	2018	2019	2020	2021	2022 and later	Total
Other contracts	1,869	985	703	550	3,214	7,321
thereof rental agreements	542	542	542	542	3,209	5,377

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 27), 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 1,407 thousand (prior year: EUR 888 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 acc. 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 2017 to 31 December 2017.

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.«

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). The loan of EUR 2.0 million was drawn in full as at the end of the reporting period. Günther Services GmbH is a »related company« according to Section 312 AktG and a »related party« according to IFRS accounting. The loan is due for repayment on 31 December 2018, but can be redeemed in full or part by Lotto24 AG at any time without prepayment penalty. The interest rate is 450 base points plus 3-month Euribor p.a. 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.

For details on related parties (Executive Board, Supervisory Board), please refer to Note 27.

25 DISCLOSURES RELATING TO FINANCIAL INSTRUMENTS

On 31 December 2017, Lotto24 AG held available-for-sale financial instruments amounting to EUR 0 thousand (prior year: EUR 697 thousand), which are measured at fair value (Level 1), but held no held-to-maturity financial investments (prior year: EUR – thousand).

As of the balance sheet date, Lotto24 AG did not hold any financial liabilities measured at fair value.

In the case of the disclosed short-term financial instruments not measured at fair value, the carrying values are a suitable approximate value for the respective fair value.

We use the following methods and assumptions to measure fair value:

Cash and short-term financial assets

The amortised cost of cash and short-term financial assets more or less corresponds to fair value, which in the case of publicly traded financial instruments is based on the price quotations available for these or similar instruments.

Non-current financial assets

The fair value of non-current financial assets is based on the issue price available for like or similar securities.

Current and non-current liabilities

We measure the fair value of current and non-current liabilities based on the issue price available for like or similar debt instruments. It more or less equals the amount repayable. The following table shows the importance of net results from financial instruments:

in EUR thousand	2017	2016	2017	2016
	Recognised directly in equity		Recognised in profit or loss	
Financial assets				
Short-term financial investments				
Available-for-sale financial investments	6	50	10	68
Financial liabilities				
Financial loans	-	-	-303	-359
Financial result	6	50	-293	-292

The financial instruments included in the following balance sheet items can be allocated to the following categories:

FINANCIAL INSTRUMENTS 2017

in EUR thousand	Amortised cost	Fair value	Non-financial assets/liabilities	Total	Book value 31.12.2017	Fair value 31.12.2017
ASSETS						
Cash and short-term investments						
Receivables	8,271	-	-		8,271	8,271
Trade receivables						
Receivables	179	-	-		179	179
Other receivables and prepaid expenses						
Receivables	5,467	-	531	5,998		
				5,998	5,998	5,998
Total					14,448	14,448
of which financial loans and receivables					13,918	13,918
LIABILITIES						
Short-term financial liabilities						
Trade payables						
Financial liabilities	1,416	-	-		1,416	1,416
Other liabilities						
Other liabilities	12,046	-	521	12,567		
Short-term provisions						
Non-financial liabilities	-	-	1,840	1,840		
				14,407	14,407	14,407
Long-term liabilities						
Financial loans	488	-	-		488	488
Other long-term liabilities						
Non-financial liabilities	-	-	22		22	22
Long-term provisions						
Non-financial liabilities	-	-	1,732		1,732	1,732
Total					18,065	18,065
of which financial liabilities measured at amortised cost					13,950	13,950

FINANCIAL INSTRUMENTS 2016

in EUR thousand	Amortised cost	Fair value	Non-financial assets/liabilities	Total	Book value 31.12.2016	Fair value 31.12.2016
ASSETS						
Cash and short-term investments						
Receivables	9,481	-	-		9,481	9,481
Other financial assets						
Available-for-sale financial investments	-	697	-	697		
				697	697	697
Trade receivables						
Receivables	274	-	-		274	274
Other receivables and prepaid expenses						
Receivables	11,125	-	544	11,669		
				11,669	11,669	11,669
Total					22,121	22,121
of which financial loans and receivables					20,880	20,880
of which available-for-sale financial investments					697	697
LIABILITIES						
Short-term financial liabilities						
Trade payables						
Financial liabilities	1,957	-	-		1,957	1,957
Other liabilities						
Other liabilities	18,333	-	488	18,821		
Short-term provisions						
Non-financial liabilities	-	-	1,599	1,599		
				20,420	20,420	20,420
Long-term liabilities						
Financial loans	2,257	-	-		2,257	2,257
Long-term provisions						
Non-financial liabilities	-	-	1,525		1,525	1,525
Total					26,159	26,159
of which financial liabilities measured at amortised cost					22,548	22,548

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.

Other financial assets comprised available-for-sale securities in the previous year which are measured according to their Level 1 classification on the basis of market prices.

25.1 Credit risk

The scope of the credit risk of Lotto24 AG equals the sum of cash, short-term financial investments and other receivables.

In view of the climate on the European and global financial markets, there may be a default risk both in respect of the cash and short-term financial assets themselves, as well as the accruing interest.

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.

in EUR thousand	Variable interest rates	Fixed interest rates	Total
31.12.2017			
Cash and pledged cash	8,271	-	8,271
Total	8,271	-	8,271

in EUR thousand	Variable interest rates	Fixed interest rates	Total
31.12.2016			
Cash and pledged cash	9,481	-	9,481
Short-term financial assets			
Available-for-sale financial investments	697	-	697
Total	10,178	-	10,178

26 EVENTS AFTER 31 DECEMBER 2017

Member of the Executive Board Kai Hannemann left Lotto24

There has been a change in the Executive Board of Lotto24 AG: Kai Hannemann, 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, stepped down from the Executive Board on 31 January 2018 for personal reasons and asked the Supervisory Board to prematurely terminate his service agreement. The Supervisory Board agreed to his request with regret.

Kai Hannemann joined Lotto24 as CIO (Chief Information Officer) in February 2014 and was appointed to the Executive Board of Lotto24 AG in July 2016. Under his guidance, Lotto24 AG successfully completed the insourcing of its IT activities. He shaped the entire IT organisation and infrastructure, whose highly scalable technology has enabled the continued growth and ongoing expansion of the Company's product offerings.

Until a successor has been appointed, the IT departments are being headed on an interim basis by Petra von Strombeck, CEO of Lotto24 AG.

27 OTHER DISCLOSURES

27.1 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.

Until 31 January 2018, Kai Hannemann was 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. Until a successor has been appointed, Petra von Strombeck is responsible for the IT departments on an interim basis.

The members of the Executive Board work on a full-time basis. Their remuneration in fiscal year 2017 comprised the following elements:

BENEFITS GRANTED				
Petra von Strombeck, Chief Executive Officer as of 01.07.2012				
in EUR thousand	2017	2017 (min.) variable	2017 (max.) variable	2016
Fixed remuneration	300	-	-	300
Benefits	-	-	-	-
Total (fixed)	300	-	-	300
One-year variable remuneration	112	-	400	243
Multi-year variable remuneration	227	-	500	265
Phantom shares 2013–2017 (4 years) ¹⁾	-	-	-	-
Phantom shares 2014–2018 (4 years) ¹⁾	-	-	-	-
Phantom shares 2015–2019 (4 years) ¹⁾	-	-	-	150
Phantom shares 2016–2020 (4 years) ¹⁾	90	-	150	115
Phantom shares 2017–2021 (4 years) ¹⁾	54	-	150	-
KPI-based remuneration (3 years) ²⁾	-	-	-	-
Revenues 2017–2020 (3 years) ²⁾	39	-	100	-
EBIT 2017–2020 (3 years) ²⁾	44	-	100	-
Total (variable)	339	-	900	508
Remuneration expense	-	-	-	-
Total remuneration	639	-	900	808

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

Magnus von Zitzewitz, Member of the Executive Board
as of 01.07.2012

in EUR thousand	2017	2017 (min.) variable	2017 (max.) variable	2016
Fixed remuneration	200	-	-	200
Benefits	-	-	-	-
Total (fixed)	200	-	-	200
One-year variable remuneration	126	-	260	165
Multi-year variable remuneration	146	-	325	172
Phantom shares 2013–2017 (4 years) ¹⁾	-	-	-	-
Phantom shares 2014–2018 (4 years) ¹⁾	-	-	-	-
Phantom shares 2015–2019 (4 years) ¹⁾	-	-	-	97
Phantom shares 2016–2020 (4 years) ¹⁾	58	-	97	75
Phantom shares 2017–2021 (4 years) ¹⁾	35	-	98	-
KPI-based remuneration (3 years) ²⁾	-	-	-	-
Revenues 2017–2020 (3 years) ²⁾	25	-	65	-
EBIT 2017–2020 (3 years) ²⁾	28	-	65	-
Total (variable)	272	-	585	337
Remuneration expense	-	-	-	-
Total remuneration	472	-	585	537

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

Kai Hannemann, Member of the Executive Board
from 01.07.2016 to 31.01.2018

in EUR thousand	2017	2017 (min.) variable	2017 (max.) variable	2016
Fixed remuneration	180	-	-	90
Benefits	-	-	-	-
Total (fixed)	180	-	-	90
One-year variable remuneration	112	-	160	44
Multi-year variable remuneration	90	-	260	46
Phantom shares 2013–2017 (4 years) ¹⁾	-	-	-	-
Phantom shares 2014–2018 (4 years) ¹⁾	-	-	-	-
Phantom shares 2015–2019 (4 years) ¹⁾	-	-	-	-
Phantom shares 2016–2020 (4 years) ¹⁾	-	-	60	46
Phantom shares 2017–2021 (4 years) ¹⁾	-	-	120	-
KPI-based remuneration (3 years) ²⁾	-	-	-	-
Revenues 2017–2020 (3 years) ²⁾	-	-	40	-
EBIT 2017–2020 (3 years) ²⁾	-	-	40	-
Multi-year variable remuneration 2016	90			
Total (variable)	202	-	420	90
Remuneration expense	-	-	-	-
Total remuneration	382	-	420	180

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 20 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 20 thousand in each case

BENEFITS RECEIVED

in EUR thousand	Petra von Strombeck, Chief Executive Officer as of 01.07.2012		Magnus von Zitzewitz, Member of the Executive Board as of 01.07.2012		Kai Hannemann Member of the Executive Board from 01.07.2016 to 31.01.2018	
	2017	2016	2017	2016	2017	2016
Fixed remuneration	300	300	200	200	180	90
Benefits	-	-	-	-	-	-
Total (fixed)	300	300	200	200	180	90
One-year variable remuneration	243	247	165	146	44	-
Multi-year variable remuneration	396	371	257	241	-	-
Phantom shares 2012-2016 (4 years) ¹⁾	-	371	-	241	-	-
Phantom shares 2013-2017 (4 years) ¹⁾	396	-	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⁾	-	-	-	-	-	-
KPI-based remuneration (3 years) ²⁾	-	-	-	-	-	-
Revenues 2017-2020 (3 years) ²⁾	-	-	-	-	-	-
EBIT 2017-2020 (3 years) ²⁾	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total (variable)	639	619	422	387	44	-
Remuneration expense	-	-	-	-	-	-
Total remuneration	939	919	622	587	224	90

¹⁾ Fair value of phantom shares granted monthly, depending on the current share price

²⁾ Fair value of KPI-based remuneration granted monthly

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 2017

in EUR thousand	Fixed remuneration	Variable remuneration	31.12.2017
Petra von Strombeck	300	112	412
Magnus von Zitzewitz	200	126	326
Kai Hannemann	180	112	292
Total	680	350	1,030

REMUNERATION 2016

in EUR thousand	Fixed remuneration	Variable remuneration	31.12.2016
Petra von Strombeck	300	243	543
Magnus von Zitzewitz	200	165	365
Kai Hannemann	90	44	134
Total	590	453	1,043

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

PHANTOM SHARES 2016

	Number of virtual shares (thousand units)	Fair value on grant date (EUR thousand)	Provision for share-based payment 31 December 2016 (EUR thousand)	- of which disclosed under short-term provisions	- of which disclosed under long-term provisions
Petra von Strombeck	190	721	1,156	264	893
Magnus von Zitzewitz	124	469	752	171	580
Kai Hannemann	9	46	52	-	52
Total	323	1,236	1,960	435	1,525

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, is to receive multi-year variable remuneration for 2016 of EUR 90 thousand. There will be no additional payment of multi-year variable remuneration for the years 2017 and 2018. Kai Hannemann will receive basic remuneration for 2018 of EUR 180 thousand.

27.2 Supervisory Board

The following persons held seats on the Supervisory Board of Lotto24 AG in fiscal year 2017:

- Prof. Willi Berchtold, Managing Partner of CUATROB GmbH (Chairman of the Supervisory Board)
- Jens Schumann, merchant (Deputy Chairman)
- Thorsten Hehl, investment manager, 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)

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	2017	2016
Prof. Willi Berchtold	63	63
Jens Schumann	38	38
Thorsten Hehl	25	25
Total	125	125

27.3 Employees

At the end of the reporting period on 31 December 2017, Lotto24 AG had 89 employees (full-time equivalents, excluding the three Executive Board members, prior year: 79). 39% (prior year: 39%) of employees and 7 student helpers (prior year: 8) were employed in Marketing (including customer service). 40% (prior year: 39%) of our employees were employed in the IT department. The average headcount of the quarterly reporting dates was 86 employees in 2017 (prior year: 76).

27.4 Disclosures according to Section 160 (1) Number 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.

»In accordance with Section 21 (1a) WpHG, **Jens Schumann**, Germany, informed us on 2 July 2012 that his shareholding in Lotto24 AG, Hamburg, Germany, ISIN: DE000LTT0243, amounted to 5.07% (corresponding to 708,750 voting rights) on 2 July 2012, the day on which shares of Lotto24 AG were first publicly offered. Voting rights are held directly.«

»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.«

»**Fidelity Funds SICAV**, Luxembourg, Luxembourg, notified us due to the acquisition/disposal of shares with voting rights (published on 14 December 2017), that its shareholding in Lotto24 AG, Strassenbahnring 11, 20251 Hamburg, Germany, on 7 December 2017 amounted to 2.82% (last notification: 4.75%), whereby all 680,837 of the total 24,154,890 voting rights in Lotto24 AG, corresponding to 2.82%, 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.«

»**FIL Limited**, Pembroke, Bermuda, notified us due to an increased proxy for voting rights attached to shares (published on 19 July 2016), that its shareholding in Lotto24 AG, Strassenbahnring 11, 20251 Hamburg, Germany, on 15 July 2016 amounted to 5.20% (last notification: 4.97%), whereby all 1,255,446 of the total 24,154,890 voting rights in Lotto24 AG, corresponding to 5.20%, 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: 5.20%, total: 5.20%).«

»**Scherzer & Co. Aktiengesellschaft**, Cologne, Germany, notified us due to the acquisition/disposal of shares with voting rights (published on 13 January 2017), that its shareholding in Lotto24 AG, Strassenbahnring 11, 20251 Hamburg, Germany, on 11 January 2017 amounted to 2.53% (last notification: 4.67%), whereby all 610,134 of the total 24,154,890 voting rights in Lotto24 AG, corresponding to 2.53%, 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.«

»**Frager Funds Management Pty. Ltd.**, Newcastle, Australia, notified us due to the acquisition/disposal of shares with voting rights (published on 10 February 2017), that its shareholding in Lotto24 AG, Strassenbahnring 11, 20251 Hamburg, Germany, on 25 January 2017 amounted to 2.99% (last notification: 3.09%), whereby all 722,764 of the total 24,154,890 voting rights in Lotto24 AG, corresponding to 2.99%, 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.«

»**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..«

»Mr **Kenneth Chan** notified us due to the acquisition/disposal of shares with voting rights (published on 1 November 2017, correction published on 12 February 2018), that his shareholding in Lotto24 AG, Strassenbahnring 11, 20251 Hamburg, Germany, on 27 October 2017 amounted to 15.09% (last notification: 10.02%), whereby all 3,644,897 of the total 24,154,890 voting rights in Lotto24 AG, corresponding to 15.09%, are attributable to him 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 Group 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 15.09%, total 15.09%).«

»**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 15 December 2017), that its total shareholding in Lotto24 AG, Strassenbahnring 11, 20251 Hamburg, Germany, on 11 December 2017 amounted to 15.06% (last notification: 14.32%), whereby all 3,637,586 of the total 24,154,890 voting rights in Lotto24 AG, corresponding to 15.06%, 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 15.06%, total 15.06%), UBS Switzerland AG.«

27.5 Declaration of conformity with the recommendations of the »German Corporate Governance Code« according to Section 160 (1) Number 8 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 19 et seq of this Annual Report and via the Company's website (Lotto24-ag.de).

27.6 Auditing costs

in EUR thousand	2017	2016
Auditing fees	80	88
Other audit-related fees	3	-
Tax consulting services	5	6
Other services	3	14
Total	92	108

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.

Hamburg, 22 March 2018

The Executive Board



Petra von Strombeck
Chief Executive Officer



Magnus von Zitzewitz
Member of the Executive Board

AUDITOR'S REPORT

We have issued the following audit opinion on the separate financial statements according to Section 325 (2)a of the German Commercial Code (Handelsgesetzbuch – HGB) and the management report:

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 2017 to 31 December 2017, the statement of comprehensive income from 1 January 2017 to 31 December 2017, the balance sheet as at 31 December 2017, the cash flow statement and the statement of changes in equity for the fiscal year 1 January 2017 to 31 December 2017, 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 2017 to 31 December 2017.

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 2017, and of its financial performance for the financial year from 1 January 2017 to 31 December 2017, 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 2017. 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) 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 2017. In view of the material importance and complexity of the assessment models, 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 2017 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 2017 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 »2.1.17 Revenues« and in section »5 Revenues« for details on the accounting and valuation methods applied.

2) Accounting for deferred tax assets

Reasons for designation as key audit matter

As at 31 December 2017, 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, and provisions for long-term compensation components of the Executive Board. 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 result within a planning horizon of five years from the fiscal year 2018 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 and estimating the tax risks.

In view of the material importance, the complexity of the assessment models, 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, in particular taking into account the budgeted figures. 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 »2.1.16 Income taxes« and in section »10 Income taxes« for details on the accounting and valuation methods applied.

Other information

The legal representatives are responsible for the other information. The other information comprises the following up to the date of this audit opinion

- the Declaration on Company Management in accordance with Section 289f German Commercial Code (HGB) contained in the Management Report
- the statement of responsibility of the Executive Board pursuant to Section 264 (2) Sentence 3 HGB and Section 289 (1) Sentence 5 HGB in the chapter »Statement of responsibility of the legal representatives« in the Report on the Annual Financial Statements of Lotto24 AG,
- the chapter »Corporate Governance Report« of the Annual Report 2017,
- details on the fourth quarter of 2016 and the fourth quarter of 2017 disclosed in the Annual Report

as well as information gained in the other parts of the Report on the Annual Financial Statements, with the exception of the annual financial statements of Lotto24 AG and our accompanying audit opinion.

Our audit opinions on the annual financial statements 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 annual financial statements, 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 IFRS annual financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 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 30 May 2017. We were commissioned by the Supervisory Board on 10 January 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 audit committee 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, 22 March 2018

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Brorhilker
Auditor

Nissen-Schmidt
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, 22 March 2018

The Executive Board



Petra von Strombeck
Chief Executive Officer



Magnus von Zitzewitz
Member of the Executive Board

KEY FIGURES

in EUR thousand	2017	Q. IV 2017	Q. III 2017	Q. II 2017	Q. I 2017	2016	Q. IV. 2016
Billings	220,736	56,163	51,801	54,572	58,200	200,520	58,968
Stakes to be remitted (less revenues)	-195,520	-49,711	-46,010	-48,262	-51,537	-177,762	-51,824
Revenues	25,216	6,452	5,791	6,310	6,663	22,759	7,145
Other operating income	38	17	5	3	14	58	17
Total performance	25,254	6,470	5,795	6,312	6,677	22,816	7,161
Personnel expenses	-8,873	-1,914	-2,082	-2,270	-2,606	-8,239	-2,343
Amortisation/depreciation on intangible assets and property, plant and equipment	-1,035	-252	-241	-250	-292	-1,247	-392
Other operating expenses	-14,334	-3,796	-3,319	-3,314	-3,905	-17,251	-4,675
Result from operating activities (EBIT)	1,013	508	153	478	-127	-3,921	-249
Revenues from financial activities	10	-	-	10	-	68	-
Expenses from financial activities	-303	-51	-65	-83	-104	-359	-102
Financial result	-293	-51	-65	-73	-104	-292	-102
Net profit before taxes	720	457	88	406	-230	-4,213	-351
Income taxes	1,813	754	626	1,300	-867	1,891	-626
Net profit	2,533	1,210	713	1,706	-1,097	-2,322	-977
Breakdown of other operating expenses							
Marketing expenses	-7,890	-2,132	-1,712	-1,759	-2,288	-10,824	-3,026
Direct operating expenses	-2,519	-596	-617	-650	-656	-2,464	-678
Indirect operating expenses	-3,924	-1,067	-991	-905	-961	-3,964	-971
Other operating expenses	-14,334	-3,796	-3,319	-3,314	-3,905	-17,251	-4,675

FINANCIAL CALENDAR

3 May 2018	Quarterly statement as of 31 March 2018
4 May 2018	Annual General Meeting
8 August 2018	Half-yearly financial report as of 30 June 2018
7 November 2018	Quarterly statement as of 30 September 2018

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