

# LOTTO 24

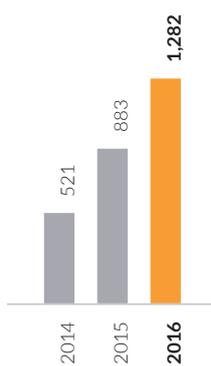
Annual Report **2016**

## STILL GROWING

Lotto24 is Germany's leading online provider of state-licensed lotteries. 2016 was a further successful year for us: we achieved strong growth, passed the one million customer mark and continued to expand our product portfolio. As a result, we strengthened our position as leader in the growing German market for online lotteries. We aim to continue our successful journey in 2017!

### REGISTERED CUSTOMERS

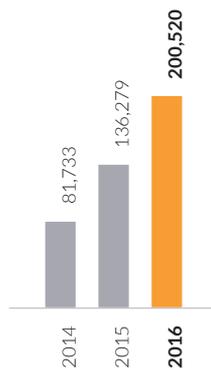
in thousand (accumulated)



+45%

### BILLINGS

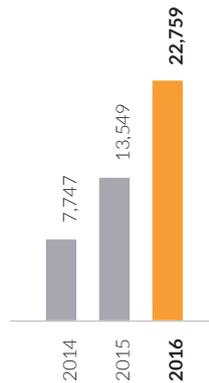
in EUR thousand



+47%

### REVENUES

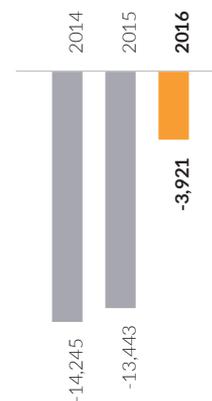
in EUR thousand



+68%

### EBIT

in EUR thousand



- Market leader with 31% market share
- Good external conditions with high jackpot amounts
- Further development of product range and user friendliness
- Major step towards break-even

## FOREWORD

# »FIRMLY ON TRACK FOR BREAK-EVEN.«



*Kai Hannemann, Petra von Strombeck, Magnus von Zitzewitz*

### Ladies and gentlemen,

We continued to pursue our course with success in 2016: we achieved strong growth, easily surpassed the one million customer mark, continued to expand our product portfolio and further enhanced the quality and user friendliness of our product range. As a result, we strengthened our leading position in the growing German market for online lotteries and made significant progress on our path towards break-even. This success is also reflected in our share price, which rose by 81% over the year!

### Strong improvement in all key figures

We were aided of course by favourable external conditions with high jackpots for both the »Lotto 6aus49« and »EuroJackpot« lotteries – despite the European soccer championship in the second quarter: this tailwind helped lift billings by 47.1% to EUR 200.5 million (prior year: EUR 136.3 million) and revenues by 68.0% to EUR 22.8 million (prior year: EUR 13.5 million) in 2016. In the fourth quarter of 2016, billings and revenues grew by as much as 67.3% to EUR 59.0 million and 100.5% to EUR 7.1 million, respectively. In 2016 as a whole, the gross margin improved to 11.3% (prior year: 9.9%) – due in part to the successful roll-out of lotto clubs in February 2016. This trend was helped in particular by a gross margin of 12.1% in the fourth quarter (prior year: 10.1%).

With growth of 102.2% to 113 thousand customers in the fourth quarter alone (prior year: 56 thousand customers), we raised the number of new customers by 10.4% to 399 thousand in 2016 (prior year: 361 thousand). As of 31 December 2016, the total number of registered customers thus amounted to 1,282 thousand (prior year: 883 thousand). At the same time, we achieved a significant reduction in cost per lead (CPL) from EUR 32.99 to EUR 27.13 in 2016 – in the fourth quarter, CPL of EUR 26.85 was as much as 27.8% below the prior-year figure of EUR 37.19.

## Major step towards break-even

Owing to this strong revenue performance and the decrease in marketing expenses from EUR 11.9 million to EUR 10.8 million, EBIT improved to EUR -3.9 million (prior year: EUR -13.4 million) and net profit to EUR -2.3 million (prior year: EUR -10.8 million).

This development underlines our strong progress on the path towards reaching break-even. In September, we signed a loan agreement with the Günther Group which gives us the possibility to utilise favourable market situations for gaining new customers, thereby achieving further growth and enabling us to reach break-even without further funding.

## Further increase in market share

In 2016, we once again improved our position as the leading German provider of state-licensed lotteries via the Internet: whereas online revenues of the 16 state lottery companies together grew by just 20%, our billings rose more than twice as fast with growth of 47%. There was a corresponding increase in our market share from 26% in the previous year to 31% in the fiscal year 2016. Over the past four years, we have thus captured almost a third of the online lottery market. Since our market launch, it has always been one of our strategic targets – in addition to quality leadership and the highest customer satisfaction figures – to reach and then expand market leadership.

## THE 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.

**KAI HANNEMANN**, member of the Executive Board since July 2016, has over 25 years of experience in software development, planning, developing and implementing complex IT systems, as well as managing companies in the IT sector. After studying computer sciences at the University of Bremen, he specialised in IT for the tourist industry with a focus on flight systems. In his last position, he was Managing Director of Partner Solutions GmbH in Bremen.

## Steady product range expansion

In order to offer our customers an even better Lotto24 experience, we constantly work hard to optimise our online platform. In 2016 we expanded our product range: in addition to lotto clubs, we began offering the daily lottery »Keno« in January and the »Deutsche Fernsehlotterie« in November. Moreover, we enhanced customer service with the introduction of a further payment option.

## New Executive Board member for IT

In view of the great significance of IT for the Company's success and in accordance with our strategy of extending market leadership, we have established a new position on the Executive Board with responsibility for IT: as of 1 July 2016, Kai Hannemann is our Chief Information Officer (CIO) and thus responsible for IT Strategy, IT Systems, IT Processes and IT Operations, as well as Process and Innovation Management, and the B2G (Business-to-Government) business field. With his many years of experience in software development and the planning, development and implementation of complex IT systems, as well as in managing companies in the IT sector, he has been successfully shaping Lotto24's entire IT organisation and IT infrastructure since 2014. This highly scalable technology will enable further growth in user figures and the ongoing expansion of the Company's product range.

## To be continued

In 2017, we plan to extend our market leadership as an online provider of state-licensed lotteries and continue our sustainable growth strategy. As jackpots are likely to be lower than in the previous year, we anticipate a significant reduction in marketing expenditure with much lower new customer figures and higher CPL. We also expect to raise billings by 15% to 20% with a stable gross margin compared to the previous year. Depending on external conditions – especially the jackpot trend – and marketing investments to attract new customers, EBIT is expected to slightly exceed break-even; net profit will be clearly above the break-even point.

## Thank you!

Ladies and gentlemen, dear shareholders, thanks also to your support we remain firmly on course for success! We can therefore look forward with great confidence and commitment to the challenges ahead and would be delighted if you continued to accompany us on this journey.

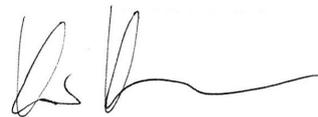
Hamburg, 27 March 2017



**Petra von Strombeck**  
Chief Executive Officer



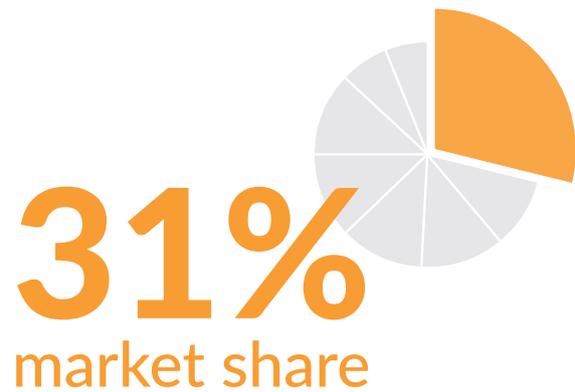
**Magnus von Zitzewitz**  
Member of the Executive Board



**Kai Hannemann**  
Member of the Executive Board

ABOUT LOTTO24

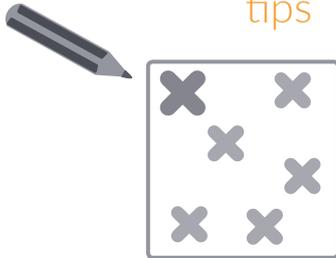
In the attractive German online lottery market, we have extended our market lead. We develop our IT with our own teams and continually optimise the offerings for our customers.



In 2016, we passed the one million customer mark and now serve almost one third of the German online lottery market. In a representative online survey of 1,002 persons in December 2016, the Lotto24 brand was once again named first in unprompted awareness of all online providers. The survey also underlined the tremendous market potential: 81% of Internet users questioned could imagine playing lotto online in future and 70% had specific plans to do so.

# State-of-the-art IT ensures optimal processes

125m  
tips



**Highly scalable:** customers buy around 20 million lotto tickets a year from us and try their luck with almost 125 million tips. And the higher the jackpot, the more traffic in our online lotto shop. With numerous high-speed connections to the Internet, we can easily process this constantly growing transaction volume.

**State-of-the-art technologies** are the basis for our IT system, whose core components we develop and operate ourselves to ensure we can meet needs quickly and flexibly. We run around 500 virtual servers in our own private cloud, distributed over three data centres. Thanks to the close cooperation between employees in the Product, Development and Operation departments, we can swiftly implement our new product ideas – an optimised version of our platform with new features goes online every 14 days.

**The quality** of our processes and our website is very important. After all, a customer who wants to win millions with a ticket bought from us needs to be certain that everything will run smoothly. To ensure we meet these high customer expectations at all times, 70,000 software tests are run every night to detect and rectify even the smallest of errors.

every 14  
DAYS



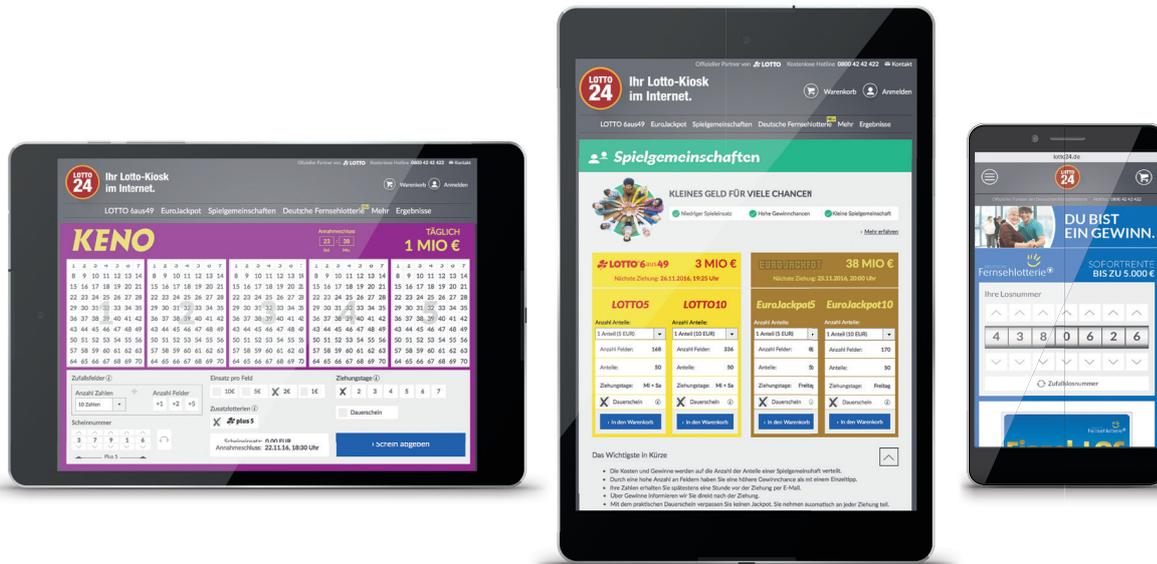
a new software  
version



70,000  
automatic tests  
per night



500  
virtual servers  
in our own private  
cloud



# Top priority: an even better Lotto24 experience for our customers.

To this end, we permanently optimise our online platform and expand the variety of our offerings: as of 2016, we offer customers lotto clubs to significantly increase their chance of winning compared to individual tickets, as well as the »Keno« lottery with exceptionally high winnings every day, and we are the first German lottery broker to offer both online and mobile participation in the »Deutsche Fernsehlotterie«. And last but not least, we introduced a further payment possibility.

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## THE LOTTO24 SHARE

2016 was a successful year for the Lotto24 share: with growth of 81% over the year it outperformed the benchmark index SDAX, which grew only slightly by around 7%.

### Buoyant stock markets with positive trend

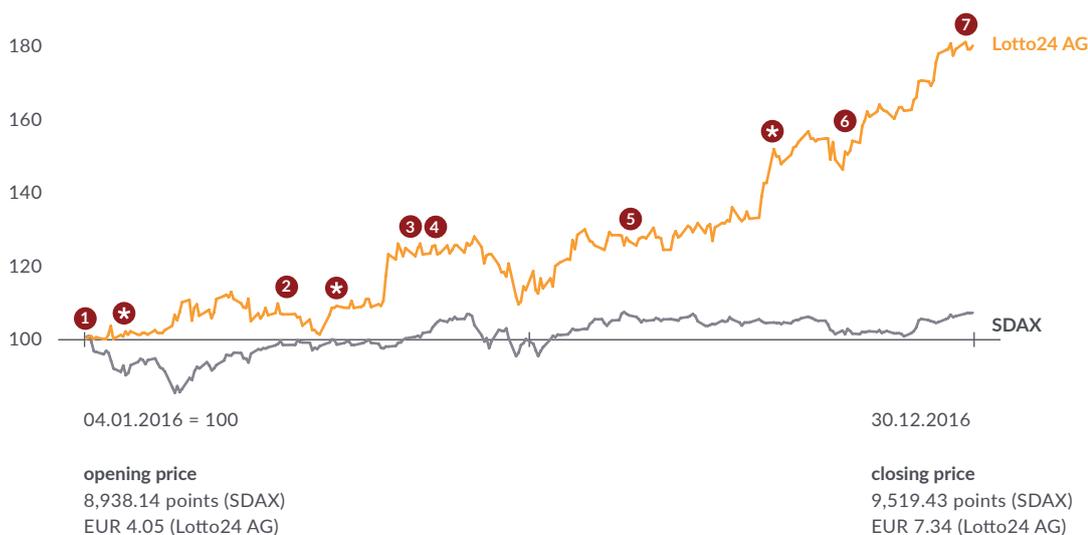
Activity on the global stock markets in 2016 was initially determined by geopolitical events, such as the Ukraine crisis and upheavals in the Middle East. In addition, there were various terrorist attacks around the world and increasingly also in European cities. In order to bolster the eurozone's sluggish economy and low inflation, the ECB reduced its key interest rate to 0% for the first time in March 2016. One of the year's decisive moments was the UK referendum in late June on whether to leave the EU: the result in favour of a so-called »Brexit« led to profound uncertainty on the world's financial and foreign exchange markets. The US election campaign in the second half of the year also caused considerable turbulence.

Despite this unsettled backdrop, both the DAX and our benchmark index SDAX ultimately recorded slight growth of around 12% and 7%.

### Strong growth for the Lotto24 share

Our successful stock market year began with a share price of EUR 4.05 – which also remained the share's lowest level throughout 2016. The trend was generally moderate in the first half of the year, with share prices of EUR 4.20 and EUR 4.33 following publication of our two announcements on the fiscal year 2015 on 14 January and 24 March. The share price then began to gather momentum on publication of our figures for the first quarter – on 12 April and 12 May – with increases to EUR 4.32 and EUR 4.98, respectively. On both 24 May, the day of our Annual General Meeting, and 11 August, the publication date of our half-yearly financial report, the share already surpassed the 5 euro mark with prices of EUR 5.09 and EUR 5.19. In October, the Lotto24 share climbed above 6 euros to reach prices of EUR 6.18 and EUR 6.27 following announcements on the third quarter published on 10 October and 11 November. And this upward trend remained unbroken: our share passed the 7 euro mark for the first time on 15 December with a closing price of EUR 7.15, before reaching an impressive year-high of EUR 7.38 on 27 December 2016 and closing our most successful stock exchange year so far at EUR 7.34 – corresponding to year-on-year growth of 81%.

### PERFORMANCE OF THE LOTTO24 SHARE



- ① 04.01. Opening- and lowest price    ② 24.03. Publication Annual Report 2015
- ③ 12.05. Publication quarterly statement Q 1    ④ 24.05. Annual General Meeting 2016
- ⑤ 11.08. Publication half-yearly financial report    ⑥ 10.11. Publication quarterly statement Q 3
- ⑦ 27.12. Highest price    \* Ad-hoc news

### Fourth Annual General Meeting

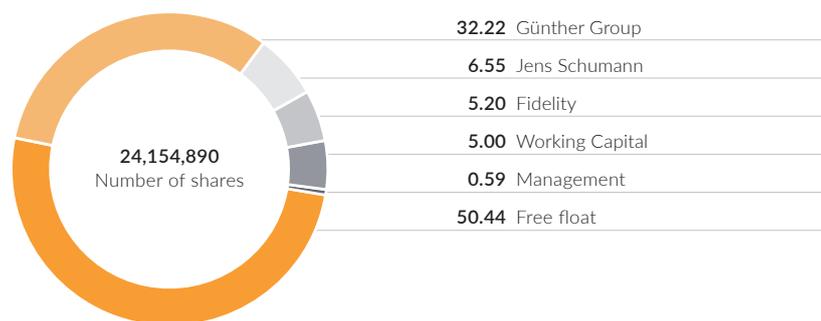
Our fourth Annual General Meeting as a listed company was held in Hamburg on 24 May 2016. With a total presence of around 62% of voting capital, the shareholders in attendance once again adopted all items on the agenda with large majorities.

### Shareholder structure

As of 31 December 2016, 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 27 March 2017:

#### SHAREHOLDER STRUCTURE <sup>1)</sup>

in %



<sup>1)</sup> according to voting rights notifications and Directors' Dealings disclosures received up to 27 March 2017

### Dividend

Lotto24 AG is a young company that has still not reached break-even. Taking also our loss carry-forwards into account, we do therefore not 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 2016, we continued to actively pursue our investor relations work and maintained close ties with the capital market. In addition to regular conference calls, we met investors and analysts at various conferences and roadshows in Hamburg, Frankfurt, London, Munich and Zurich.

### Analysts

In 2016, we were tracked and assessed by Joh. Berenberg, Gossler & Co. KG, M.M.Warburg & CO and ODDO SEYDLER BANK AG – in some cases, however, not over the entire year.

**BASIC DATA ON THE LOTTO24 SHARE**

WKN	LTT024
ISIN <sup>1)</sup>	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

<sup>1)</sup> international securities identification number

**KEY FIGURES FOR THE LOTTO24 SHARE**

	2016	2015
Number of shares on reporting day	24,154,890	24,154,890
Highest price (in EUR)	7.38	4.19
Lowest price (in EUR)	4.05	2.40
Share price on reporting day (in EUR)	7.34	4.10
Market capitalisation on reporting day (in EUR million)	177.3	99.0
Average daily trading volume (number)	14,851	17,444
Earnings per share (in EUR)	-0.10	-0,47

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# 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 5 May 2015.

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](http://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 COPORATE 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 February 2016, the 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, were all met with the following exceptions:

1. *Section 3.8 (D&O insurance deductible)* The D&O insurance taken out for the Supervisory Board of Lotto24 AG does not include a deductible. The Executive Board and Supervisory Board take the view that a D&O insurance deductible does not constitute an adequate means of achieving the Code's objectives. As a rule, deductibles of this kind are insured by the executive bodies themselves, so that the actual purpose of the deductible is nullified and therefore ultimately all that matters is the level of compensation paid to the members of executive bodies.
2. *Section 4.2.2 (2) Sentence 3 (vertical compensation comparison)* The Supervisory Board fulfils its duty to consider the appropriateness of compensation for members of the Executive Board. It also takes into account the Company's internal compensation structure. However, the Supervisory Board believes determining specific peer groups and considering development over time does not enhance the quality of their decisions and as such the Supervisory Board refrains from implementing these formal recommendations.
3. *Section 5.2 (2), 5.3.1, 5.3.2, 5.3.3, 5.4.6 Sentence 3 (Chairing committees, forming committees, setting up an audit committee and a nomination committee, as well as their composition, consideration of membership in committees when setting remuneration)* In view of the fact that the Supervisory Board of Lotto24 AG consists of just three persons, in accordance with the Company's articles, the Supervisory Board has not formed any committees, and in particular no audit committee or nomination committee.
4. *Section 5.4.1 (2) and (3) (Specification, consideration and publication of objectives for the composition of the Supervisory Board)* With regard to its own composition and that of the Executive Board, the Supervisory Board supports such aspects as internationality, female representation and independence. In view of the fact that the Supervisory Board of Lotto24 AG consists of only three members, and in view of the particular challenges facing the Supervisory Board in the current regulatory environment of Lotto24 AG, however, the Supervisory Board has refrained from formally stating objectives for its composition, beyond the mandatory requirements under stock corporation law, for the time being so as not to restrict its selection criteria with specific targets and quotas.

II. Furthermore, the Executive Board and Supervisory Board of Lotto24 AG declare that the recommendations of the »Government Commission on the German Corporate Governance Code« in the version of 5 May 2015, published in the official part of the Federal Gazette on 12 June 2015, will continue to be met in future with the exception of the recommendations stated and justified above.

Hamburg, March 2017

For the Supervisory Board of Lotto24 AG      The Executive Board of Lotto24 AG



**Prof. Berchtold**



**von Strombeck**



**von Zitzewitz**



**Hannemann**

## DECLARATION ON COMPANY MANAGEMENT IN ACCORDANCE WITH SECTION 289A 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 three members and a Supervisory Board with three members. The Executive Board is responsible for the Company's management. 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.

Petra von Strombeck (Chief Executive Officer), Magnus von Zitzewitz (member of the Executive Board) and Kai Hannemann (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. Ms 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. Mr von Zitzewitz is responsible for the divisions Legal Affairs and Regulation, Finance, Accounts, Taxes, Controlling, Compliance, Risk Management, and Communication. Mr Hannemann joined the Executive Board in July 2016 and is 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.

The Supervisory Board of Lotto24 AG also 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 Supervisory Board was appointed in the course of the Company's change in legal form to that of a public limited company in 2012 for the period ending on the expiry of the Annual General Meeting that resolves on the discharge of responsibility for the fourth fiscal year from the beginning of the period of office. 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.

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 2012, the auditor partner in charge of the audit has been Mr Carl-Heinz Klimmer.

### **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.

All the above mentioned targets were already met in the past fiscal year.

## 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»). No transactions were reported to Lotto24 AG in the past fiscal year.

## DISCLOSURE ON SHAREHOLDINGS OF EXECUTIVE BODIES

According to information provided in January 2017, Mr Schumann held 1,582,536 shares (6.55%), 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 2016.

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## REPORT OF THE SUPERVISORY BOARD

In 2016, the Supervisory Board of Lotto24 AG once again advised and monitored the Executive Board in the execution of its management duties.



Prof. Willi Berchtold

### Cooperation between Supervisory Board and Executive Board

In the reporting period, the Supervisory Board of Lotto24 AG performed its statutory duties, as well as regularly advising the Executive Board and 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. Reporting to the Supervisory Board was provided during and outside meetings by means of timely and comprehensive reports of the Executive Board 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 six face-to-face meetings and a further four conference calls were held in fiscal year 2016. 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 current risk exposure, as well as the risk management and compliance management systems,
- corporate planning, including marketing, investment and personnel planning,
- the Company's funding, in particular the preparation of a loan agreement between the Company as borrower and Günther Services GmbH as lender,
- the determination, implementation and monitoring of IT strategy,
- the appointment of Kai Hannemann as a member of the Executive Board (CIO),
- the development of the regulatory and economic environment in Germany with regard to games of chance and in particular lotteries,
- the strategic alignment and growth strategy of Lotto24 AG,
- the determination of target attainment for fiscal year 2015 including performance-based remuneration pursuant to existing remuneration regulations,
- the adjustment of variable Executive Board remuneration,
- the preliminary determination of target attainment for members of the Executive Board for 2016 and the setting of targets for fiscal year 2017,
- discussion and consultation of all business transactions requiring approval and
- the continuous improvement of corporate governance and its adaptation to new statutory requirements.

## 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

The Supervisory Board discussed in detail the recommendations of the German Corporate Governance Code. 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 German Corporate Governance Code 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, Mr Schumann and Mr Hehl also have seats on the Supervisory Board of ZEAL Network SE, London, Great Britain. In the fiscal year 2016, 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. Berchtold was appointed as a financial expert.

## Auditing

The annual financial statements for fiscal year 2016 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 year 2016 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 27 March 2017, 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 2016. 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.

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, 27 March 2017



**Prof. Willi Berchtold**  
Chairman of the Supervisory Board

04 |

## MANAGEMENT REPORT

Based on many years of management and sector experience, as well as our attractive range of products and services in the fast-growing online lottery market, we have positioned Lotto24 AG as the clear market leader. Our KPIs were once again compelling in 2016. We are well equipped to expand our market leadership.

## 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

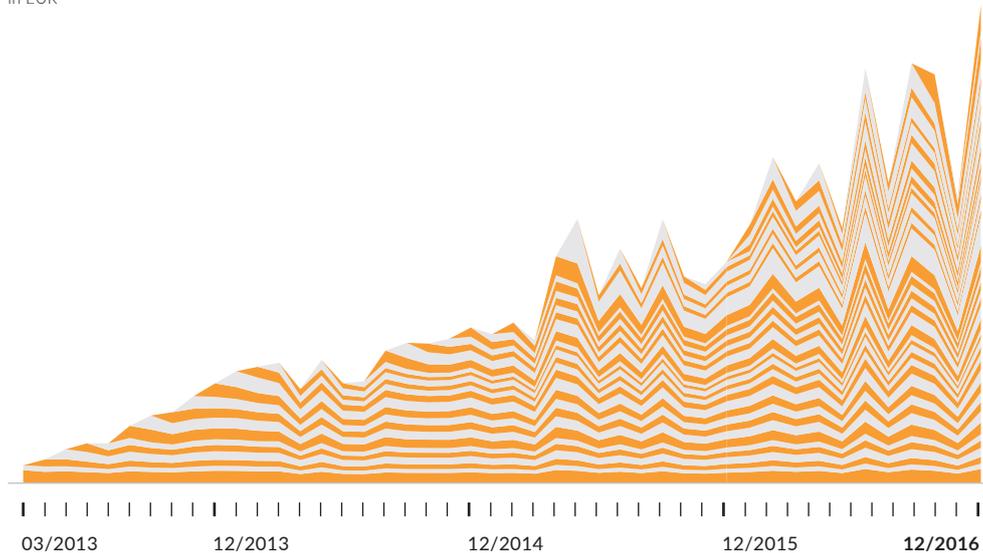
Lotto24 is attractively positioned in the value chain of the lottery business: we broker lottery products via the Internet and receive brokerage commissions from the lottery operators. We can therefore generate income without bearing the bookmaking risk ourselves.

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 the »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.

### STAKES 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 December 2016: the Lotto24 brand was named first in unprompted awareness of all online providers with a share of 29% (prior year: 24%) – encouraging confirmation of our branding success. The survey also underlined the tremendous market potential: 81% of Internet users questioned could imagine playing lotto online in future and 70% had specific plans to do so.

### Advertising stepped up for major jackpots

Whenever there are exceptionally large jackpots to be won and interest in playing lotto is particular 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 two years. As in 2015, »EuroJackpot« made a significant contribution to our growth, in terms of both new customers and billings, in the reporting period.

## 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.

Mobile marketing is used to reach around 43 million people in Germany now using mobile Internet offerings, such as apps or so-called mobile-enabled websites (source: »Arbeitsgemeinschaft Online Forschung« AGOF, »Digital Facts 2016-09«).

### Mobile sales

Lotto24 offers 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 97% (source: Kantar World Panel, 10/2016). These apps are specially designed to meet the needs of users and their respective devices – whether smartphone or tablet. In the case of Android, only a light version without the possibility to play was listed until recently in the so-called »Google Play Store«. However, this was rejected in the course of an update process by Google in March 2017. The background to this is a 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 full release of our app in 2015. When and whether this will be granted, however, is currently unknown. The full version of the Android app can 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.

### Offline channels

Like many companies with digital distribution channels, we use TV advertising as the interaction between TV and online advertising greatly magnifies the impact of all marketing campaigns and strengthens recognition of the brand (source: pilot Hamburg GmbH & Co. KG, »Online Visions 2012«). Moreover, consumers are increasingly using TV and mobile devices in parallel as a second screen.

### **Marketing for existing customers**

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 – a clear proof of our first-class service. In addition to this European seal of approval, our web shop once again received TÜV certification on 29 July 2016: 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). We are proud that this certification confirms 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 5 out of 5 stars in the extensive test, 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. Moreover, we track all developments of relevance to us – such as smart TVs – and regularly check which of these new digital distribution channels could be of interest to us and our customers.

### Launch of »Keno«, lotto clubs and the »Deutsche Fernsehlotterie«

As of the end of January 2016, our customers can play »Keno« – a number lottery offering winnings of up to one million euros every day. 20 numbers are drawn from a total of 70; players can choose between one and ten numbers. The size of the win then depends on the number of hits, the amount of numbers crossed and the size of the stake. In contrast to the well-known lotteries »Lotto 6aus49« and »EuroJackpot«, »Keno« has fixed odds. Someone who bets EUR 10 and picks ten of the 20 numbers drawn will win EUR 1 million. »Keno« is not only the game with the most variants in Lotto24's portfolio, it also offers exceptionally high chances of winning: the probability of a major win is 1:2.2 million.

We have also been offering lotto clubs for »Lotto 6aus49« and »EuroJackpot« since the beginning of February 2016. Our customers can submit numerous tickets with lower stakes and thus significantly increase their chance of winning compared to individual tickets. This new offering is a response to the wish of many customers to play in teams. In addition to the four different basic variants, Lotto24 also offers seasonal products in which customers can buy shares – such as the winter offerings »SchneeKUGEL« and »GLÜCKSkind«, in which the 24 players together won almost EUR 700 thousand and around EUR 660 thousand. In such cases, the prize money is shared, all members of the lotto club are notified and the winnings are automatically credited to the respective player's account.

As of November 2016, we are the first German lottery broker to offer both online and mobile participation in the »Deutsche Fernsehlotterie« – Germany's longest-running social lottery aimed at helping people in need. Via Lotto24.de, our customers can now also buy tickets for the »Deutsche Fernsehlotterie« and take part in the main, weekly and bonus draws with the chance of winning cash prizes (from EUR 10 to EUR 1 million), cars, trips or immediate monthly pensions.

### **New payment method with addition of »PayPal«**

In order to make the payment process as easy as possible for our customers, we added a new option to our range of possibilities: as of April 2016, Lotto24 customers can now choose to pay via the »PayPal« option. The integration of this widespread and highly popular online payment method (52% of German Internet users prefer to use »PayPal«, source: W3B-Report, November 2015) meets the demands of Internet users for a wide variety of payment options and thus improves our customer service.

### **Success factor IT**

#### **New Executive Board member for IT**

In view of the great significance of IT for our success and in accordance with our strategy of extending market leadership, we have established a new position on the Executive Board with responsibility for IT: as of 1 July 2016, Kai Hannemann is our Chief Information Officer (CIO) and thus responsible for IT Strategy, IT Systems, IT Processes and IT Operations, as well as Process and Innovation Management, and the B2G (Business-to-Government) business field. With his many years of experience in software development and the planning, development and implementation of complex IT systems, as well as in managing companies in the IT sector, he has successfully shaped Lotto24's entire IT organisation and IT infrastructure. This highly scalable technology will enable further growth in user figures and the ongoing expansion of the Company's product range.

#### **Key competitive factor: technological and methodical expertise**

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. In our daily work, we not only use »scrum« (agile software development approach) and »kanban« (process control method) but also many other agile procedures along the entire product development process. A new and completely machine-tested version of our platform goes live every 14 days.

These agile methods and tools enable us to achieve project success flexibly and quickly. In the field of business intelligence – which deals with the analysis, preparation and reporting of corporate data stored by the company – the transition to the market-leading product »Qlik« represented a milestone on our path to becoming a data-driven company. 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 contributions of active customers to total billings, and thus to revenues and earnings, 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)**.

In order to optimise our marketing measures, we reviewed and slightly adjusted the system for determining our key figures during preparation of our annual report. Amongst other things, the change to purchase date – instead of the date of actual game participation – resulted in a slightly lower activity rate and slightly higher billings per active customer. All in all, however, the impact on our key figures was comparatively low and thus negligible.

## KEY FINANCIAL FIGURES

	<b>2016</b>	2015 adjusted	2015
Number of registered customers as of 31 December (in thousand)	1,282	883	883
Number of new customer registrations (in thousand)	399	361	361
Average number of registered customers (in thousand)	1,084	721	725
Average number of active customers (in thousand)	293	204	208
Average activity rate (%)	27.0	28.3	28.7
Average billings per active customer (in EUR)	685	667	656
Cost per lead (in EUR)	27.13	32.99	32.99
<b>Gross margin (%)</b>	<b>11.3</b>	<b>9.9</b>	<b>9.9</b>
<b>Direct operating expenses as a proportion of billings (%)</b>	<b>1.2</b>	<b>2.2</b>	<b>2.2</b>
Employees as of 31 December (number) <sup>1)</sup>	79	70	70

<sup>1)</sup> not including members of the Executive Board and student helpers.

**Registered customers:** customers who have successfully completed the registration process on our 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 (B2B and business services) and the average number of active customers.

### Trend underlines sustainability of business model

At EUR 685, billings per active customer in 2016 were above the prior-year figure of EUR 667 and thus reached a healthy level – thanks in part to the favourable jackpot trend. It should be noted, however, 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 27.0%, the average activity rate in 2016 was slightly down on the previous year (28.3%). Due to the higher proportion of existing customers now reached, this trend is in line with expectations as new customers generally display a higher activity rate at the beginning which falls to a more stable level over time. Whether and to what extent this KPI will change in future due to the rising proportion of mobile use and the potentially different gaming behaviour of such customers remains to be seen as there is currently only limited experience of this trend.

**REGISTERED CUSTOMERS**

in thousand	2016	2015
<b>Number of registered customers on 31 December of the previous year</b>	<b>883</b>	<b>521</b>
First quarter (new customers)	106	56
Second quarter (new customers)	69	153
Third quarter (new customers)	111	97
Fourth quarter (new customers)	113	56
<b>Number of registered customers on 31 December</b>	<b>1,282</b>	<b>883</b>

**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 have achieved 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 201 million in 2016, around EUR 80 million was made available to social, sporting and cultural causes, as well as landmark protection activities, via DLTB.

**KEY NON-FINANCIAL FIGURES**

	2016	2015	Outlook 2017
Market share of online lottery segment <sup>1)</sup>	31 %	26 %	still growing
Customer satisfaction <sup>2)</sup>	88 %	89 %	still very high
Staff satisfaction <sup>3)</sup>			
Identification with company	97 %	99 %	still very high
Recommendation as employer	97 %	95 %	
Staff fluctuation rate	15 %	4 %	falling
Corporate Social Responsibility Share of taxes and duties of the lottery companies	around EUR 80 million	around EUR 54 million	still growing

<sup>1)</sup> source: German Lottery Association

<sup>2)</sup> source: Customer satisfaction survey 2015 and 2016

<sup>3)</sup> sources: Staff surveys 2015 and 2016

## 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 the entire process chain from the online registration of our customers through the purchase of lottery products to the payment and transmission of the tickets to the lottery companies.

Key technical developments in 2016 included the roll-out of »Keno«, lotto clubs and the »Deutsche Fernsehlotterie«, as well as the payment method »PayPal«.

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**

The offering of lotteries via the Internet in Germany 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**

Lotto24 AG received the permit allowing it to broker state lotteries via the Internet throughout Germany on 24 September 2012. The permit is limited to a period of five years – until 23 September 2017 – and 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.

We assume that our brokerage permit will be prolonged by a further five years before it expires at the end of September 2017.

### Advertising permit

The District Government of Dusseldorf last prolonged the advertising permit we received in March 2013 on 26 January 2017 (see Subsequent Events). This authorises us to advertise the online marketing of state-owned lotteries throughout Germany via the Internet and TV, thus driving the further expansion of Lotto24's customer base. The restrictions which the permit contains – for example, regarding e-mail advertising, discount amounts and social media advertising – continue to apply for the most part. These restrictions do not significantly hinder our business and apply equally to all competitors allowed in Germany. However, the possibility cannot be excluded that the authorities will apply the undefined permit restrictions more strictly in future – this may impede new customer acquisition and have a negative impact on our billings. The renewal of the advertising permit and the resulting legal certainty it provides 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. The regulation of online lottery brokerage in Germany is based primarily on the hypocritical aim of preventing addiction, without considering the low risk potential of those lotteries allowed in Germany. Much more dangerous games of chance, such as gaming machines, are subject to less restrictive regulations. In the case of sports betting – which is also more dangerous in terms of the potential danger of addiction – the GlüStV plans to break up the monopoly and transfer it to a liberal concession model. There is no rational justification for the severe restrictions based on the prevention of addiction. We therefore regard the main regulations of the GlüStV as incoherent, unlawful and thus inapplicable with regard to the primacy of the fundamental freedoms under EU law.

These ongoing inconsistent basic structures of the GlüStV – especially the licensing procedure for private sports betting providers which has still not been implemented after four 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 unconstitutional. Amendments to the GlüStV may have significant influence, also on the regulation of lottery brokerage.

On 16 October 2015, the Administrative Court of Hesse finally stopped the licensing process anchored in the GlüStV for awarding sports betting licences. The ruling cannot be appealed. 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.

This means that a simple adaptation of the licensing procedure is not possible. German states are now forced in 2017 to change the State Treaty in order to finally enable the granting of licences. A corresponding revised State Treaty is set to come into force on 1 January 2018.

In 2016, the European Court of Justice (»ECJ«) once again 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« (C-336/14), 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 have not so far resulted in the initiation of such proceedings. According to industry sources, the initiation has been prevented within the EU Commission for general political reasons. Infringement proceedings serve to clarify or resolve problems regarding the compatibility of national legislation with EU law. 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 so far by the German states for banning lottery brokers from operating in other German states is that this 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 therefore clearly unlawful and our legal opinion on this matter has thus been basically confirmed by the EU Commission.

Although the EU's institutions continue to express criticism in their court rulings, opinions and Commission proceedings, it remains to be seen to what extent the German legislature is prepared to remove key restrictions in the field of lottery brokerage without the initiation of infringement proceedings.

### Legal disputes and regulatory proceedings

In its rulings on 27 August and 10 September 2014, the Administrative Court of Hamburg mostly rejected the lawsuits we brought against restrictions of the brokerage and advertising permits – in our opinion with less than compelling reasoning, or none at all – and also refused to accept appeals for both proceedings. On 24 September 2014, we applied for the acceptance of appeals in both cases, which are currently awaiting a decision by the Higher Administrative Court of Hamburg (OVG Hamburg). In its decisions of 30 November and 19 December 2016, the OVG Hamburg granted our appeals regarding proceedings against the brokerage and first advertising permits of 2013. One of the reasons for granting this appeal is that the complex legal questions concerning the constitutionality of the Gaming Council have not yet been decided at the highest judicial level, thus underlining our views on the ongoing legal uncertainties of German gaming legislation. It is possible that the OVG Hamburg may already rule on the appeal proceedings in 2017.

In addition, we challenged the new advertising permit granted in 2015 before the Administrative Court of Hamburg due to the restrictions it contains. Although we attempted to speed up a ruling on these new proceedings by the first instance Administrative Court of 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.

## ECONOMIC CONDITIONS

### Modest growth for German lottery market

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).

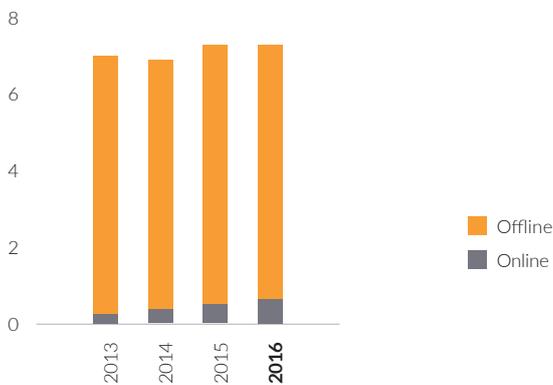
After the less restrictive GlüStV came into force in July 2012, there was initially a significant surge in growth: from 2012 to 2013, total revenues of DLTB – comprising the products »Lotto 6aus49«, »Spiel 77«, »EuroJackpot«, »Super 6«, »Sofortlotterien«, »GlücksSpirale«, »Oddset«, »Keno«, »Bingo«, »Toto« and »Plus 5« – rose by around 10.0%, due primarily to a price increase for the most important product »Lotto 6aus49«. Since 2013, sales progress has been mixed: in 2014, total revenues fell slightly by -0.7%, from EUR 7.0 billion to EUR 6.9 billion. Due in part to the increasing popularity of the »EuroJackpot« product, the total market of state-licensed lotteries grew by over 4% to EUR 7.3 billion in 2015 (source: DLTB). In 2016, the market virtually stagnated with growth of just 0.4% (source: DLTB) – despite the favourable jackpot trend.

More recent forecasts of GBGC also indicate that the German market as a whole is likely to stagnate in the period up to 2019, while certain other European markets will enjoy double-digit growth rates. According to the survey, the German market is set to expand by just 0.8% up to 2019 (based on 2013 figures), whereas Austria will grow by 32%, Finland by 28%, Great Britain by 24%, Norway by 24%, France by 16%, Spain by 11% and Italy by 8% (source: GBGC »European Lotteries«, April 2015).

Just how far Germany has fallen behind is underlined by a comparison with other European countries of per capita spending on lotteries. In 2013, per capita spending on lotteries in Germany amounted to EUR 103, while in Austria it was EUR 360, in Finland EUR 267, in Italy EUR 291, in Norway EUR 251, in Spain EUR 219, in France EUR 168 and in Great Britain EUR 135 (source: GBGC »European Lotteries«, April 2015 and »statista«). In our opinion, there is a significant catch-up potential in Germany as per capita spending on lotteries is well below the European average. However, this potential is not currently being exploited due to comparatively strict regulations and the low number of product innovations as a result of Germany's federal structures.

### TOTAL MARKET DEVELOPMENT

in EUR billion



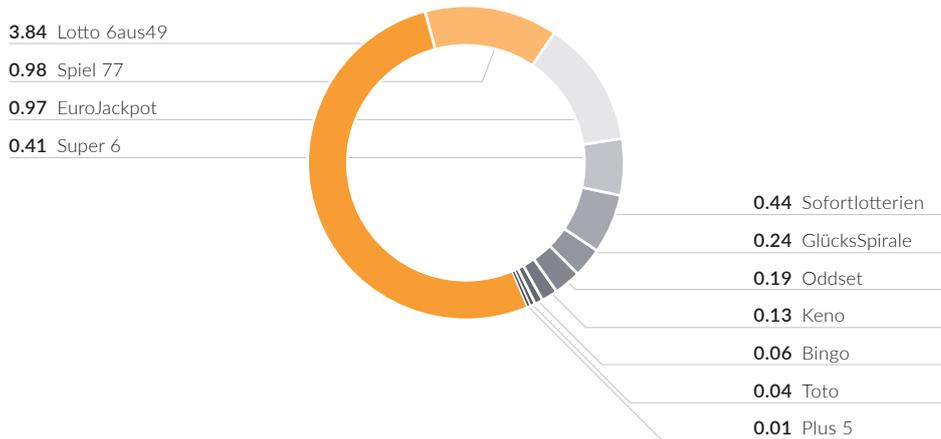
### Product portfolio of the state lottery companies

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 3.8 billion (prior year: EUR 4.1 billion). However, its relative share is in decline. In second place once again was the supplementary lottery »Spiel 77« with revenues of EUR 979 million (prior year: EUR 1.0 billion), closely followed by the increasingly popular »EuroJackpot« with EUR 965 million (prior year: EUR 769 million). Other products are »Super6«, »Sofortlotterien«, »GlücksSpirale«, »Oddset«, »Keno«, »Bingo«, »Toto« and »Plus 5«.

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« 2016**

in EUR billion



**Huge potential of online segment**

Despite the relatively modest trend of the German lottery market compared to other European countries, we see significant catch-up potential in the online segment. 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), 53% of music was sold online in 2014 (source: Bundesverband Musikindustrie, »GfK, Consumer Panel«, 2015) and 41% of trips were booked online in 2015 (source: »FUR, statista«, January 2016).
- Since the introduction of new advertising guidelines on 1 February 2013 and 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 (»Deutscher Lottverband«), online revenues of state lottery companies and private brokers have been steadily rising: from EUR 35 million in 2012 (after the gradual reopening of the market) to EUR 253 million in 2013, to EUR 390 million in 2014 and to EUR 520 million in 2015. The online segment grew by 25% to EUR 650 million in 2016. Online sales thus accounted for 9% of total German lottery sales in 2016 (prior year: 7%) – 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.

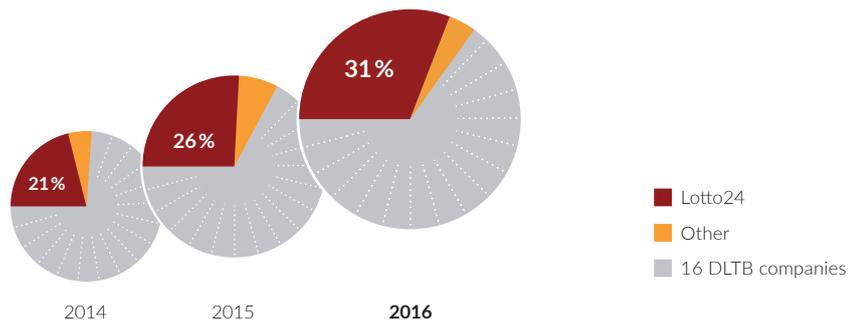
### Lotto24 is market leader and growth driver in online lottery market

In 2016, Lotto24 accounted for almost half the market growth of the online segment. While the online lottery market grew by 25% to EUR 650 million in 2016, online sales of the 16 state-owned lottery companies increased by a less than proportionate 20% to around EUR 420 million (prior year: EUR 350 million).

By contrast, our billings rose more than twice as fast by 47% to EUR 201 million (prior year: EUR 136 million). As a result, our online market share increased from 26% in the previous year to around 31% in 2016. All other lottery brokers together accounted for just 4% or so of the online market in 2016.

We are therefore once again the largest provider of online lotto by far and also ahead of all individual state lottery companies. The largest of them, Westlotto, achieved online sales of EUR 107 million in 2016, according to its own figures – a little over half of our total billings. These figures once again confirm that our strategy is sustainable and successful.

#### LOTTO24'S SHARE OF THE TOTAL 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 secondary lotto companies not allowed in Germany.

According to information of the relevant Ministry of the Interior for Lower Saxony, 23 private commercial gaming brokers have received brokerage permits in addition to the state-owned companies. The advertising activities of our private competitors with permits in Germany as a whole were once again very modest in 2016 and marked by a clear consolidation phase: for example, the brokers Einfach Direkt Media GmbH (Einfachlotto.de) and Jumbo Interactive GmbH (Jumbolotto.de) gave up their business in Germany. We have signed marketing cooperation agreements with both providers to target their respective client bases – with the aim of attracting them as registered customers of Lotto24. We have already gained a significant number of these clients.

The secondary lottery providers once again aggressively advertised their products on TV and the Internet in 2016, without having the necessary brokerage and advertising permits for Germany. Whether and to what extent the regulatory bodies will take action and 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 still 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 therefore do not 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.

**Good jackpot trend**

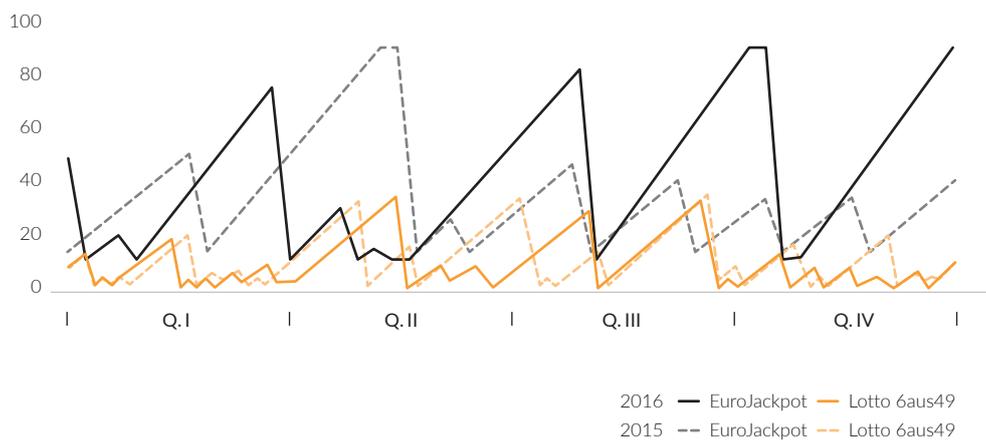
We expect particularly strong increases in the number of registered customers when potential players have greater expectations of exceptional winnings, in other words whenever there are large jackpots. Such jackpots are comprised of stakes submitted by players who did not meet the conditions for winning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

Similar to the good jackpot year 2015, the German lottery »Lotto 6aus49« reported three jackpots of over EUR 20 million in 2016 with – also as in 2015 – two guaranteed jackpot payouts after the 13th draw (mandatory payout).

With two jackpots reaching the EUR 90 million barrier (prior year: one), the European lottery »EuroJackpot« was even more successful than in 2015. We therefore expect lower jackpot effects in fiscal year 2017 than in 2016.

**JACKPOT DEVELOPMENT**

in EUR million



## BUSINESS DEVELOPMENT

### Forecast exceeded

We performed better than expected in fiscal year 2016: on 10 October 2016, we upgraded our forecast from 14 January 2016 and surpassed it once again as of 31 December 2016:

#### FORECAST COMPARISON

	Forecast (14.01.2016/10.10.2016)	2016 Actual	2015 Actual
Billings	Increase of 25% to 30%/ Increase of 35% to 40%	EUR 200.5 million (+47.1%)	EUR 136.3 million
Gross margin	Slight improvement/ clear improvement over previous year	11.3%	9.9%
Marketing expenses	Significantly reduced/ slightly reduced	EUR -10.8 million	EUR -11.9 million
CPL	Higher/much lower than previous year	EUR 27.13	EUR 32.99
EBIT	Much lower losses than previous year	EUR -3.9 million	EUR -13.4 million
Net profit	Much lower losses than previous year	EUR -2.3 million	EUR -10.8 million
New customers	Much lower number/slightly higher than previous year	399 thousand	361 thousand

Due to the positive jackpot trend for »Lotto 6aus49« and »EuroJackpot«, as well as our successful marketing activities, we were able to convince a total of 399 thousand new customers to register with Lotto24 in 2016 (prior year: 361 thousand). We easily exceeded the respective prior-year figures above all in the first (106 thousand; prior year: 56 thousand) and fourth quarter (113 thousand; prior year: 56 thousand). As of 31 December 2016, the total number of registered customers thus rose by 45.2% to 1,282 thousand (prior year: 883 thousand).

Due in part to the favourable »EuroJackpot« trend, marketing expenses of EUR -3.0 million in the fourth quarter of 2016 (prior year: EUR -2.1 million) were above the prior-year level, but at EUR -10.8 million for the year as a whole in 2016 (prior year: EUR -11.9 million) below the prior-year figure. In 2016, we were able to significantly reduce CPL from EUR 32.99 to EUR 27.13 – CPL of EUR 26.85 in the fourth quarter was as much as 27.8% below the prior-year figure of EUR 37.19.

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 spend, 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

	2016		2015	Q. IV '16		Q. IV '15	
	in EUR thousand			in EUR thousand	%	in EUR thousand	in EUR thousand
Billings	200,520		136,279	47.1	58,968	35,251	67.3
Stakes to be remitted (less revenues)	-177,762		-122,730	44.8	-51,824	-31,687	63.5
<b>Revenues</b>	<b>22,759</b>		<b>13,549</b>	<b>68.0</b>	<b>7,145</b>	<b>3,564</b>	<b>100.5</b>
Personnel expenses	-8,239		-6,067	35.8	-2,343	-1,604	46.1
Other operating expenses	-17,251		-20,995	-17.8	-4,675	-4,441	5.3
less other operating income	58		636	-90.9	17	616	-97.3
<b>Operating expenses</b>	<b>-25,432</b>		<b>-26,426</b>	<b>-3.8</b>	<b>-7,001</b>	<b>-5,428</b>	<b>29.0</b>
<b>EBITDA</b>	<b>-2,674</b>		<b>-12,877</b>	<b>-79.2</b>	<b>143</b>	<b>-1,864</b>	<b>-107.7</b>
Amortisation and depreciation	-1,247		-566	120.3	-392	-232	69.0
<b>EBIT</b>	<b>-3,921</b>		<b>-13,443</b>	<b>-70.8</b>	<b>-249</b>	<b>-2,096</b>	<b>-88.1</b>
Financial result	-292		-55	428.5	-102	-82	25.4
<b>Earnings before taxes</b>	<b>-4,213</b>		<b>-13,498</b>	<b>-68.8</b>	<b>-351</b>	<b>-2,178</b>	<b>-83.9</b>
Income taxes	1,891		2,699	-30.0	-626	1,492	-142.0
<b>Net profit</b>	<b>-2,322</b>		<b>-10,799</b>	<b>-78.5</b>	<b>-977</b>	<b>-685</b>	<b>42.6</b>
<b>Breakdown of other operating expenses</b>							
Marketing expenses	-10,824		-11,923	-9.2	-3,026	-2,072	46.0
Direct operating expenses	-2,464		-3,009	-18.1	-678	-502	35.1
Indirect operating expenses	-3,964		-6,062	-34.6	-971	-1,867	-48.0
<b>Other operating expenses</b>	<b>-17,251</b>		<b>-20,995</b>	<b>-17.8</b>	<b>-4,675</b>	<b>-4,441</b>	<b>5.3</b>

### Strong progress in all KPIs

Lotto24 continues to make dynamic progress: due to the favourable external conditions with high jackpots in both the »Lotto 6aus49« and »EuroJackpot« lotteries – and despite the European soccer championship – we were able to raise billings by 47.1% to EUR 200,520 thousand in 2016 (prior year: EUR 136,279 thousand) and revenues by 68.0% to EUR 22,759 thousand (prior year: EUR 13,549 thousand). In the fourth quarter of 2016, billings and revenues rose by as much as 67.3% to EUR 58,968 thousand and 100.5% to 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.

In 2016, gross margin improved – due in part to the successful launch of lotto clubs in February 2016 – to 11.3% (prior year: 9.9%). The fourth quarter made a particularly strong contribution with a gross margin of 12.1% (prior year: 10.1%).

### Major step towards break-even

Earnings in 2016 were still burdened by further start-up costs. However, mainly due to the strong revenue trend, the decline in absolute marketing expenses and reduced direct and indirect operating expenses, EBIT improved by -70.8% to EUR -3,921 thousand (prior year: EUR -13,443 thousand) – despite the year-on-year increase in personnel expenses.

The financial result amounted to EUR -292 thousand (prior year: EUR -55 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 8,477 thousand to EUR -2,322 thousand (prior year: EUR -10,799 thousand). In the reporting period, further deferred tax assets were formed for loss carry-forwards.

Earnings per share improved to EUR -0.10 (prior year: EUR -0.47).

### Development of key income statement items

At the end of the reporting period on 31 December 2016, Lotto24 AG had 79 employees (full-time equivalents, excluding the three Executive Board members, prior year: 70). Most employees were employed in the Marketing and IT departments (79%; prior year: 81%). In addition, Lotto24 AG employed 8 student helpers (prior year: 19) – mainly in customer service. In this area in particular, we recruited more salaried employees in 2016 in order to give our first-class service for customers more stability and continuity.

Mainly due to the year-on-year increase in headcount and higher valuation of phantom shares in line with the share price trend (EUR -1,283 thousand; prior year: EUR -651 thousand), personnel expenses rose to EUR -8,239 thousand (prior year: EUR -6,067 thousand).

Compared to the same period last year, other operating expenses fell from EUR -20,995 thousand to EUR -17,251 thousand in 2016. The development in detail was as follows:

- In view of favourable external conditions with high jackpots for »Lotto 6aus49« and »EuroJackpot«, marketing expenses in 2016 of EUR -10,824 thousand were down year on year (prior year: EUR -11,923 thousand) due to a strong reduction in CPL.

- Direct costs of operations (mainly costs for billings-related payment transactions as well as B2B and business services) fell from EUR -3,009 thousand to EUR -2,464 thousand. In the previous year, direct costs also included usage fees for external technical processing of gaming operations. Such costs have not been incurred since late 2015 when the processing of gaming operations was in-sourced. We expect that the remaining direct costs will increase in future, as they develop in proportion with billings.
- Indirect operating expenses fell from EUR -6,062 thousand to EUR -3,964 thousand. The decreased use of external management and consultancy services due to IT insourcing was a major factor in the decline of consultancy expenses to EUR -1,996 thousand (prior year: EUR -3,243 thousand). At the same time, external IT costs fell to EUR -579 thousand (prior year: EUR -1,311 thousand) due to the insourcing of software development.

The increase in depreciation/amortisation of tangible and intangible assets to EUR -1,247 thousand (prior year: EUR -566 thousand) resulted mainly from the scheduled depreciation of investments in our IT infrastructure and acquired office and communication technology, as well as the amortisation of our smartphone and tablet apps.

## 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 24 of the notes to the consolidated financial statements.

### Financial analysis

Our financial situation is mainly dominated by equity and short-term liabilities. The proportion of long-term liabilities is on a par with the previous year. The subscribed capital of Lotto24 AG is unchanged from the end of the reporting period 2015 (EUR 24,155 thousand; prior year: EUR 24,155 thousand).

As of 31 December 2016, equity amounted to EUR 22,091 thousand and comprised the following items:

<b>EQUITY</b>		
in EUR thousand	<b>31.12.2016</b>	31.12.2015
Subscribed capital	24,155	24,155
Capital reserves	41,012	41,012
Other reserves	-6	-56
Retained earnings	-43,070	-40,748
<b>Total</b>	<b>22,091</b>	<b>24,362</b>

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 loss of the fiscal year.

Other reserves comprise 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 50 thousand, prior year: EUR -74 thousand). Please also refer to the statement of comprehensive income.

The balance sheet total rose by EUR 9,100 thousand, from EUR 39,149 thousand to EUR 48,250 thousand.

### TRADE PAYABLES

in EUR thousand	<b>31.12.2016</b>	31.12.2015
Trade payables	1,957	1,609
<b>Total</b>	<b>1,957</b>	<b>1,609</b>

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	<b>31.12.2016</b>	31.12.2015
Liabilities from gaming operations	14,950	6,593
Liabilities from hire purchase agreements	3,206	629
Holiday obligations	140	74
Amounts due in connection with taxes (VAT/payroll and church taxes) and social security	347	90
Interest liabilities	102	87
Other	75	5
<b>Total</b>	<b>18,821</b>	<b>7,478</b>

As of 31 December 2016, other liabilities rose to EUR 18,821 thousand (prior year: EUR 7,478 thousand). They mainly comprised liabilities from gaming operations of EUR 14,950 thousand (prior year: EUR 6,593 thousand), which were not only influenced by the jackpot-related increase in billings but also comparatively higher customer winnings close to 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. The item also includes small winnings which customers leave on their gaming accounts and use later to pay for tickets. The item interest-bearing loans included current payments, due within one year, for the loan in connection with IT insourcing (EUR 3,000 thousand; prior year: EUR – thousand) and the current payments, due within twelve months, for IT equipment at our new data centres (hire purchase agreements: EUR 206 thousand; prior year: EUR 629 thousand). As a result of reporting date effects, there was a rise in amounts due in connection with taxes – mostly from sales activity (EUR 246 thousand; prior year: EUR 11 thousand) – as well as in payroll obligations (EUR 100 thousand; prior year: EUR 79 thousand) and holiday obligations (EUR 140 thousand; prior year: EUR 74 thousand) – due in part to the increase in headcount. Interest obligations at the end of the reporting period (EUR 102 thousand; prior year: EUR 87 thousand) resulted from loans taken out.

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 -637 thousand (prior year: EUR -2,115 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	2016	2015
Cash flow from operating activities	-319	-10,048
Cash flow from investing activities	4,014	-3,121
thereof financial investments	4,650	-1,006
thereof operative investments	-637	-2,115
Cash flow from financing activities	1,410	11,654
<b>Change in available funds</b>	<b>5,105</b>	<b>-1,515</b>
Available funds at the beginning of the period	5,073	6,588
<b>Available funds at the end of the period</b>	<b>10,178</b>	<b>5,073</b>
Available-for-sale financial investments (available >3 months and <1 year)	-	4,587
Held-to-maturity financial investments	-	-
<b>Available funds</b>	<b>10,178</b>	<b>9,660</b>

Due to the improvement in earnings in fiscal year 2016 and the increase in gaming operations, cash flow from operating activities rose to EUR -319 thousand (prior year: EUR -10,048 thousand).

Cash flow from investing activities amounted to EUR 4,014 thousand (prior year: EUR -3,121 thousand), as the net payments received from the sale of financial assets exceeded disbursements for capital expenditure.

Net cash flow from financing activities of EUR 1,410 thousand (prior year: EUR 11,654 thousand) includes both the new loan from the Günther Group and the partial redemption of existing loans.

As of 31 December 2016, other assets and prepaid expenses comprised the following items:

#### OTHER ASSETS AND PREPAID EXPENSES

in EUR thousand	31.12.2016	31.12.2015
Receivables from gaming operations	10,149	3,180
Deposits	976	967
Prepaid expenses	537	298
Tax receivables	7	-
<b>Total</b>	<b>11,669</b>	<b>4,445</b>

## ASSET POSITION

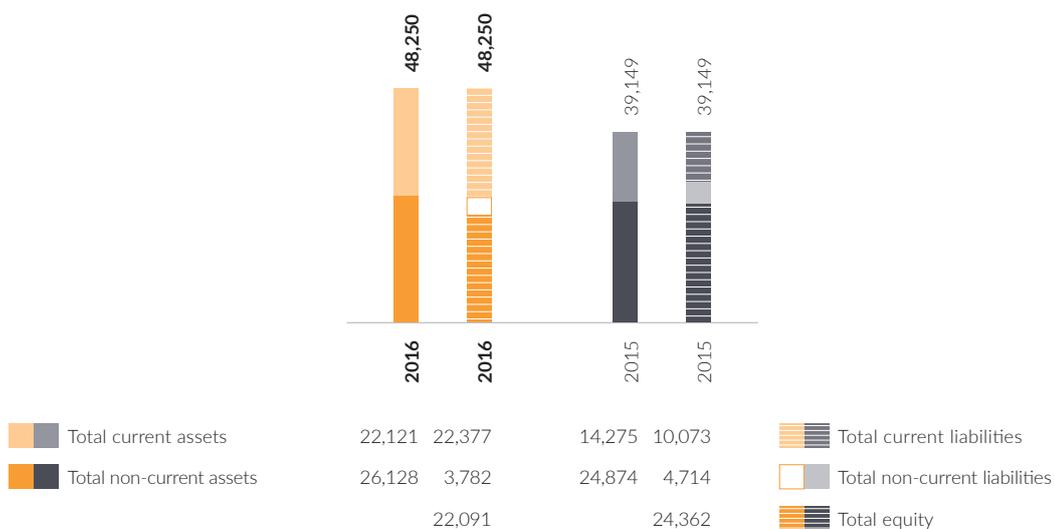
Compared to 31 December 2015, total assets increased by EUR 9,100 thousand to EUR 48,250 thousand as of 31 December 2016 – mainly due to the increase in receivables from gaming operations as of the reporting date and in deferred tax assets for loss carryforwards based on expected offsetting against future positive results.

Current assets mainly comprised other assets and prepaid expenses (EUR 11,669 thousand; prior year: EUR 4,445 thousand), cash and cash equivalents (EUR 9,481 thousand; prior year: EUR 2,801 thousand) and other financial assets (EUR 697 thousand; prior year: EUR 6,859 thousand).

Non-current assets were dominated by goodwill (EUR 18,850 thousand; unchanged from the previous year) and net deferred tax assets (EUR 5,429 thousand; prior year: EUR 3,562 thousand).

### BALANCE SHEET STRUCTURE

in EUR thousand



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

Off-balance-sheet financial instruments do not play a significant role for our financing. 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 1,890 thousand (prior year: EUR 2,629 thousand) for beyond the next five years. Further information is provided in section 22 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 in the growth of Germany's online lottery market: after establishing ourselves as market leader in 2014, we achieved further strong growth in 2015 and 2016 and have extended our leading position. Amongst other things, the trust placed in us by Lotto24's major shareholders, who paid 10% or more above share price in several successful capital increases for cash, gave us further momentum.

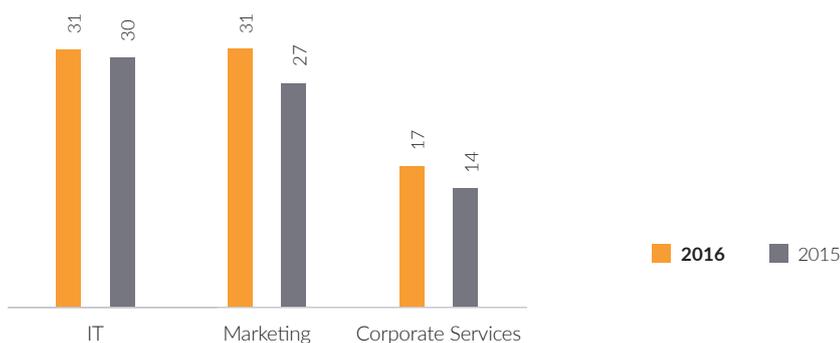
**EMPLOYEES**

At the end of the reporting period on 31 December 2016, Lotto24 AG had 79 employees (full-time equivalents, excluding the three Executive Board members, prior year: 70). Most employees were employed in the Marketing and IT departments (79%; prior year: 81%). In addition, Lotto24 AG employed 8 student helpers (prior year: 19) – mainly in customer service. In this area in particular, we recruited more salaried employees in 2016 in order to give our first-class service for customers more stability and continuity.

In order to meet the need for suitable skilled staff in our IT department, we have decided to train our own IT specialists in the field of application development and systems integration – as of August 2017, we will therefore be launching our first apprenticeship programme.

Staff fluctuation rose to 15% in the reporting period (prior year: 4%). Adjusted for expiring fixed-term contracts to bridge parental leave and part-time students who completed their studies and subsequently worked in their respective specialist areas, the fluctuation rate amounted to 9%.

**HEADCOUNT BY DEPARTMENT <sup>1)</sup>**



<sup>1)</sup> rounded to full-time equivalents per department

**NUMBER OF EMPLOYEES<sup>1)</sup>**

	<b>31.12.2016</b>	31.12.2015
Lotto24 total	83	75
of which women	24	21
of which part-time staff	16	16
Average age of staff in years	37	37
Staff fluctuation in % (annual average)	15	4
Employees (full-time equivalent)	79	70

<sup>1)</sup> at end of reporting period; excluding Executive Board members, students and temps

**Positive working environment**

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

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

**Targeted support and development**

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

**High level of staff satisfaction**

In September 2016, we conducted our fourth staff survey which confirmed the high staff satisfaction rates of the previous years. The main topics were once again Company objectives, management, strategy, communication and the employee's own role at the Company. Despite our continued growth, staff strongly identified with the Company: 97% would recommend Lotto24 AG to others as an employer (prior year: 95%). In particular, our colleagues appreciate the team spirit, the way we treat each other, and our strategic and solution-oriented approach. Our aim is to maintain this high level of staff satisfaction in 2017, 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 the largest German-language platform for employer ratings »kununu«, we currently have a very impressive 4.54 out of 5.00 possible points (as of: 27 March 2017) and are well above the industry average in the field of »IT« (3.60) and the overall »kununu« average (3.12). In the »Management« section, a »kununu« survey even ranked us 14th in terms of Germany's best management team (as of: 18 August 2016).

## CORPORATE SOCIAL RESPONSIBILITY

### Around EUR 80 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. Half of the money is returned to players in the form of prizes and about 10% is spent on marketing and administration.

According to DLTB figures, almost EUR 3.0 billion of lottery money was used to support good causes in 2016 (prior year: EUR 2.9 billion). Of this total, EUR 1.7 billion (prior year: EUR 1.6 billion) benefited projects in the field of culture, sport, society and welfare, as well as landmark and environmental protection. More than a quarter of these funds were used in the field of sports (prior year: EUR 400 million) and some EUR 1.2 billion of lottery taxes flowed into the coffers of Germany's regional states (prior year: EUR 1.2 billion). These states in turn also 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 80 million for important social and community projects in 2016.

In addition, we were the first German lottery broker to include the social lottery »Deutsche Fernsehlotterie« in our product range – thereby providing further direct and indirect support for good causes.

As of November 2016, over one million Lotto24 customers can now buy tickets for »Deutsche Fernsehlotterie« – Germany's longest-running social lottery aimed at helping people in need – and take part in the main, weekly and bonus draws with the chance of winning cash prizes (from EUR 10 to EUR 1 million), cars, trips or an immediate monthly pension.

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

Othello Vier Beteiligungs GmbH & Co. KG as a shareholder of Lotto24 AG with a minority interest following a capital increase in July 2015 (entry date 16 July 2015) has grounds for a constantly anticipated (de facto) majority vote at future annual general meetings. As a result, as of 16 July 2015 there is a dependent relationship between Lotto24 AG and Othello Vier Beteiligungs GmbH & Co. KG according to Section 17 (1) German Stock Corporation Act (AktG). The top-level, controlling parent company according to AktG of Othello Vier Beteiligungs GmbH & Co. KG is 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 reporting period.

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

### **Decision on German Money Laundering Act (GWG)**

With its decision of 17 January 2017, the Ministry of the Interior for Lower Saxony partially exempted Lotto24 from the application of various GWG obligations. The exemptions include internal safeguards within the risk management system, obligations to acquire customer data, identification and information requirements. The Ministry of the Interior rejected our application for exemption from further obligations. We believe that the remaining obligations will not significantly affect our business and will apply equally to all gaming providers. Nevertheless, we are reviewing the extent to which we can appeal against the decision – especially with regard to the imminent revision of the GWG to implement the Fourth EU Money Laundering Directive.

### **Advertising permit extended**

The German authority responsible for advertising standards, the District Government of Dusseldorf, last prolonged the advertising permit we received in March 2013 on 26 January 2017. The prolongation is initially tied to the remaining term of the brokerage permit until 23 September 2017 and will be extended after the new brokerage permit has been granted until 12 March 2019 in accordance with the usual two-year prolongation period. 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.

### **»Hamburg's Best Employers« accolade received again in 2017**

At an award ceremony held on 27 January 2017, we were once again named one of »Hamburg's Best Employers« with the top score of five stars. We already received this special award in 2015 for our outstanding HR work. 256 Hamburg-based companies took part in the competition, which is run annually by Hamburg's Helmut Schmidt University, the Institute for Management and Economic Research »IMWF«, the radio station »alsterradio 106.8« and local newspaper »Hamburger Abendblatt«.

## 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 macroeconomic 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 also 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 who will use 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 management

One of the key tasks of the Executive Board of Lotto24 AG is the strategic management of the Company, including risk management. To this end, we carefully monitor our market and competitive environment and use the insights we gain to swiftly introduce measures which will ensure the long-term and sustainable success of the Company.

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.

### 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. It cannot therefore be excluded that further sales partners may be open for the advertising activities of secondary lotteries. So far, such activities have not been prevented by the relevant regulatory authorities. The unclear responsibilities of regulatory authorities 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:

The marketing of state lotteries via the Internet is only possible in Germany 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 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 application of advertising restrictions

Due to the vagueness 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 apply 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. The latter calls 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. Following a hearing by the District Government of Dusseldorf on »countdown« advertising and advertising texts, Lotto24 published a statement on its own legal opinion regarding the issued advertising permit. Following the ECJ's »Ince« verdict, however, a strict application of advertising restrictions has become less likely as the GlüStV's Internet and advertising guidelines have not so far been notified to the European Commission and are thus presumably inapplicable.

Law on the Amendment of the German Money Laundering Act (»Gesetz zur Ergänzung des Geldwäschegesetzes« - GwGErgG)

Online gaming brokers have been subject to measures aimed at preventing money laundering under the German Anti-Money Laundering and Terrorism Financing Act (GWG) since February 2013. The GWG obliges online gaming brokers to identify players according to the same strict criteria as for opening a bank account. Authorised gaming providers in Germany already meet strict identification requirements as part of the necessary age verification process, as required by youth protection law. Lottery companies and brokers can be exempted from the additional requirements if they submit the appropriate application. In 2014, Lotto24 already commissioned a recognised, independent expert on money laundering to prepare a corresponding risk analysis which concluded that there was little risk of money laundering involved in online lottery brokerage. After further consultation with the Federal Ministry of Finance, Lotto24 developed a comprehensive money laundering prevention concept and submitted an application to the relevant Ministry of the Interior for Lower Saxony in 2014 regarding exemption from the money laundering requirements, with reference to the results of its risk analysis. With its decision of 17 January 2017, the Ministry of the Interior for Lower Saxony partially exempted Lotto24 from the application of various GWG obligations (see Subsequent Events). We believe that the remaining obligations will not significantly affect our business and will apply equally to all gaming providers.

In late 2016, the German Ministry of Finance published a draft report on the implementation of the Fourth Money Laundering Directive. It is not yet clear whether the legislative procedure for the transposition of the directives will lead to further restrictions or relief, as experience has shown that further amendments can be expected in the course of the legislative procedure. We have submitted an opinion to the Ministry of Finance on the draft report via the German Lotto Association.

### 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.

Liquidity until reaching break-even

As first reported on 7 September 2016, we generally assume that we will require no further funding until reaching break-even. However, should exceptional circumstances or market opportunities arise which cannot be financed via the available funds, the possibility of further funding cannot be excluded.

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 at 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 the 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.«), Dusseldorf, 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 those departments providing information. Individual items are accounted for based on the input of external specialists/appraisers.

The accounting-related ICS is monitored 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

In its rulings on 27 August 2014 and 10 September 2014, the Administrative Court of Hamburg mostly rejected the lawsuits we brought against restrictions of the brokerage and advertising permits – in our opinion with less than compelling reasoning, or none at all. Appeal was granted for proceedings against restrictions of the brokerage permit on 30 November 2016, and for restrictions of the advertising permit on 19 December 2016. The OVG Hamburg may lift key restrictions of the permits in the appeal proceedings. The court may already decide on the appeals in 2017.

Significant opportunities result from:

- *Removal of regionalisation duty:* By incorporating the regionalisation duty in their permits, the federal states are once again endeavouring to prevent the competition for game brokers so far protected by the Federal Cartel Office and the BGH. This obligation forces brokers to submit tickets regionally to the respective state lottery company based on the player's place of residence. In view of the BGH's anti-trust rulings on the German lottery market, we believe that this process contravenes valid law. If our action is successful and the regionalisation duty is removed, this would improve significantly our adverse position – due to the regional monopolies and resulting lack of alternative delivery options – regarding commission negotiations with the state lottery companies. We would thus be free to broker the gaming volumes of our customers to those state lottery companies which pay us comparatively higher commission rates, which would immediately lead to a significant improvement in gross margin. Moreover, the high technical effort of maintaining different interfaces with the 16 state lotteries would decrease significantly.
- *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 digitalisation 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. In times of high jackpots, we expect particularly strong customer growth as well as an increase in billings of our registered customers. A higher frequency of large jackpots (>EUR 20 million) or record jackpot amounts (>EUR 35 million) may lead to rising game incentives.

## FORECAST REPORT

Lotto24 is the leading German provider of state-licensed lotteries via the Internet. 2016 was a further good year for us: we enjoyed strong growth, passed the one million customer mark and continued to expand our product portfolio. As a result, we have strengthened our position as the leader in Germany's growing market for online lotteries. We aim to continue this successful journey in 2017!

### Expected earnings position

In 2017, we plan to extend our market leadership as an online provider of state-licensed lotteries and continue our sustainable growth strategy. As jackpots are likely to be lower than in the previous year, we anticipate a significant reduction in marketing expenditure with much lower new customer figures and higher CPL. We also expect to raise billings by 15% to 20% with a stable gross margin compared to the previous year. Depending on external conditions – especially the jackpot trend – and marketing investments to attract new customers, EBIT is expected to slightly exceed break-even; net profit will be clearly above the break-even point.

### Expected financial position

Based on our growing revenue streams and consistently high marketing expenditure – albeit reduced – we expect significantly reduced use of funds in fiscal year 2017.

On 31 December 2016, we had cash and other financial assets totalling EUR 10,178 thousand. We intend to use these funds in part for marketing activities to attract new customers. Moreover, we will continue to widen 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. After our capital increase for cash contributions in 2015, under exclusion of subscription rights, 2,195,899 new shares with dividend entitlement were issued. In addition, the Executive Board is still authorised to raise share capital by the remaining 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 rapidly 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 No. 1 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 289 (4) German Commercial Code (HGB):

### Composition of subscribed capital

As of 31 December 2016, 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 2016, 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 21, 25 or 25a WpHG can also result in the – at least temporary – loss of rights from shares, including the right to vote, pursuant to Section 28 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 21 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)

### 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.

### **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.

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

The Corporate Governance Declaration pursuant to Section 289a HGB has been made available to the public on the Company's website [Lotto24-ag.de](http://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 vesting 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) has been converted to a variable remuneration component (EUR 205 thousand for the Executive Board as a whole), whereby the tranche period for the new component has been 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. 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 maximum caps.

Executive Board remuneration in 2016 was as follows:

### BENEFITS GRANTED

Petra von Strombeck, Chief Executive Officer  
as of 01.07.2012

in EUR thousand	2016	2016 (min.) variable	2016 (max.) variable	2015
Fixed remuneration	300	-	-	300
Benefits	-	-	-	-
<b>Total (fixed)</b>	<b>300</b>	<b>-</b>	<b>-</b>	<b>300</b>
One-year variable remuneration	243	-	400	247
Multi-year variable remuneration	265	-	600	194
Phantom shares 2012–2016 (4 years) <sup>1)</sup>	-	-	-	-
Phantom shares 2013–2017 (4 years) <sup>1)</sup>	-	-	-	-
Phantom shares 2014–2018 (4 years) <sup>1)</sup>	-	-	-	75
Phantom shares 2015–2019 (4 years) <sup>1)</sup>	150	-	300	119
Phantom Shares 2016–2020 (4 years) <sup>1)</sup>	115	-	300	-
<b>Total (variable)</b>	<b>508</b>	<b>-</b>	<b>1,000</b>	<b>441</b>
Remuneration expense	-	-	-	-
<b>Total remuneration</b>	<b>808</b>	<b>-</b>	<b>1,000</b>	<b>741</b>

<sup>1)</sup> fair value of phantom shares granted monthly, depending on the current share price  
The nominal values of the granted phantom shares amount to EUR 100 thousand in each case.

### BENEFITS GRANTED

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

in EUR thousand	2016	2016 (min.) variable	2016 (max.) variable	2015
Fixed remuneration	200	-	-	200
Benefits	-	-	-	-
<b>Total (fixed)</b>	<b>200</b>	<b>-</b>	<b>-</b>	<b>200</b>
One-year variable remuneration	165	-	260	146
Multi-year variable remuneration	172	-	390	126
Phantom shares 2012–2016 (4 years) <sup>1)</sup>	-	-	-	-
Phantom shares 2013–2017 (4 years) <sup>1)</sup>	-	-	-	-
Phantom shares 2014–2018 (4 years) <sup>1)</sup>	-	-	-	49
Phantom shares 2015–2019 (4 years) <sup>1)</sup>	97	-	195	77
Phantom Shares 2016–2020 (4 years) <sup>1)</sup>	75	-	195	-
<b>Total (variable)</b>	<b>337</b>	<b>-</b>	<b>650</b>	<b>272</b>
Remuneration expense	-	-	-	-
<b>Total remuneration</b>	<b>537</b>	<b>-</b>	<b>650</b>	<b>472</b>

<sup>1)</sup> fair value of phantom shares granted monthly, depending on the current share price  
The nominal values of the granted phantom shares amount to EUR 65 thousand in each case.

**BENEFITS GRANTED**

Kai Hannemann, Member of the Executive Board  
as of 01.07.2016

in EUR thousand	2016	2016 (min.) variable	2016 (max.) variable	2015
Fixed remuneration	90	-	-	-
Benefits	-	-	-	-
<b>Total (fixed)</b>	<b>90</b>	<b>-</b>	<b>-</b>	<b>-</b>
One-year variable remuneration	44	-	80	-
Multi-year variable remuneration	46	-	120	-
Phantom shares 2012–2016 (4 years) <sup>1)</sup>	-	-	-	-
Phantom shares 2013–2017 (4 years) <sup>1)</sup>	-	-	-	-
Phantom shares 2014–2018 (4 years) <sup>1)</sup>	-	-	-	-
Phantom shares 2015–2019 (4 years) <sup>1)</sup>	-	-	-	-
Phantom Shares 2016–2020 (4 years) <sup>1)</sup>	46	-	120	-
<b>Total (variable)</b>	<b>90</b>	<b>-</b>	<b>200</b>	<b>-</b>
Remuneration expense	-	-	-	-
<b>Total remuneration</b>	<b>180</b>	<b>-</b>	<b>200</b>	<b>-</b>

<sup>1)</sup> fair value of phantom shares granted monthly, depending on the current share price  
The nominal values of the granted phantom shares amount to EUR 40 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 when benefits are received at the end of the four-year vesting or blocking period depends on the share price performance. In accordance with the recommendations of the 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 410 thousand (prior year: EUR 330 thousand) is limited to a maximum of three times the issue price. See additional explanations at the beginning of the Remuneration Report.

**BENEFITS RECEIVED**

	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 as of 01.07.2016	
in EUR thousand	<b>2016</b>	2015	<b>2016</b>	2015	<b>2016</b>	2015
Fixed remuneration	300	300	200	200	90	-
Benefits	-	-	-	-	-	-
<b>Total (fixed)</b>	<b>300</b>	<b>300</b>	<b>200</b>	<b>200</b>	<b>90</b>	<b>-</b>
One-year variable remuneration	247	103	146	137	-	-
Multi-year variable remuneration	371	-	241	-	-	-
Phantom shares 2012–2016 (4 years) <sup>1)</sup>	371	-	241	-	-	-
Phantom shares 2013–2017 (4 years) <sup>1)</sup>	-	-	-	-	-	-
Phantom shares 2014–2018 (4 years) <sup>1)</sup>	-	-	-	-	-	-
Phantom shares 2015–2019 (4 years) <sup>1)</sup>	-	-	-	-	-	-
Phantom Shares 2016–2020 (4 years) <sup>1)</sup>	-	-	-	-	-	-
Other	-	-	-	-	-	-
<b>Total (variable)</b>	<b>619</b>	<b>103</b>	<b>387</b>	<b>137</b>	<b>-</b>	<b>-</b>
Remuneration expense	-	-	-	-	-	-
<b>Total remuneration</b>	<b>919</b>	<b>403</b>	<b>587</b>	<b>337</b>	<b>90</b>	<b>-</b>

## 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 2016 and was remunerated as follows:

in EUR thousand	<b>2016</b>	2015
Prof. Willi Berchtold	63	63
Jens Schumann	38	38
Thorsten Hehl	25	25
<b>Total</b>	<b>125</b>	<b>125</b>

Hamburg, 27 March 2017

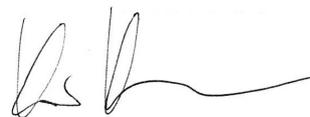
The Executive Board



**Petra von Strombeck**  
Chief Executive Officer



**Magnus von Zitzewitz**  
Member of the Executive Board



**Kai Hannemann**  
Member of the Executive Board

05 |

## FINANCIAL STATEMENTS

2016 was a further good year for us: we enjoyed strong growth, passed the one million customer mark and continued to expand our product portfolio. As a result, we have strengthened our position as the leader in Germany's growing market for online lotteries.

## INCOME STATEMENT

FROM 1 JANUARY TO 31 DECEMBER ACCORDING TO IFRS

in EUR thousand	Notes	2016	2015	Q. IV 2016	Q. IV 2015
Billings		200,520	136,279	58,968	35,251
Remitted stakes (less commissions)		-177,762	-122,730	-51,824	-31,687
<b>Revenues</b>	5	<b>22,759</b>	<b>13,549</b>	<b>7,145</b>	<b>3,564</b>
Other operating income	6	58	636	17	616
<b>Total performance</b>		<b>22,816</b>	<b>14,185</b>	<b>7,161</b>	<b>4,180</b>
Personnel expenses	7	-8,239	-6,067	-2,343	-1,604
Amortisation/depreciation on intangible assets and property, plant and equipment	15, 16	-1,247	-566	-392	-232
Other operating expenses	8	-17,251	-20,995	-4,675	-4,441
<b>Result from operating activities (EBIT)</b>		<b>-3,921</b>	<b>-13,443</b>	<b>-249</b>	<b>-2,096</b>
Revenues from financial activities	9	68	113	-	2
Expenses from financial activities	9	-359	-168	-102	-84
<b>Financial result</b>	9	<b>-292</b>	<b>-55</b>	<b>-102</b>	<b>-82</b>
<b>Net profit before taxes</b>		<b>-4,213</b>	<b>-13,498</b>	<b>-351</b>	<b>-2,178</b>
Income taxes	10	1,891	2,699	-626	1,492
<b>Net profit (after taxes)</b>		<b>-2,322</b>	<b>-10,799</b>	<b>-977</b>	<b>-685</b>
Earnings per share (undiluted and diluted, in EUR/share)		-0.10	-0.47	-0.04	-0.03
Weighted average of ordinary shares outstanding (undiluted and diluted, in shares)		24,154,890	22,969,706	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	2016	2015	Q. IV 2016	Q. IV 2015
<b>Net profit for the period</b>		<b>-2,322</b>	<b>-10,799</b>	<b>-977</b>	<b>-685</b>
Other comprehensive income to be reclassified to the income statement in subsequent periods					
Revaluation (+) gains/(-) losses from available-for-sale financial assets	11	74	-109	-6	37
Income tax effects	24	-24	35	2	-12
Other comprehensive income after taxes		50	-74	-4	25
<b>Total comprehensive income after taxes</b>		<b>-2,272</b>	<b>-10,873</b>	<b>-982</b>	<b>-661</b>

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

## BALANCE SHEET

ASSETS AS AT 31 DECEMBER ACCORDING TO IFRS

ASSETS	in EUR thousand	Notes	31.12.2016	31.12.2015
<b>Current assets</b>				
Cash and cash equivalents		11	9,481	2,801
Other financial assets		11	697	6,859
Trade receivables		12	274	169
Other assets and prepaid expenses		13	11,669	4,445
<b>Current assets, total</b>			<b>22,121</b>	<b>14,275</b>
<b>Non-current assets</b>				
Goodwill		14	18,850	18,850
Intangible assets		15	445	550
Property, plant and equipment		16	1,404	1,913
Deferred tax assets		10	5,429	3,562
<b>Non-current assets, total</b>			<b>26,128</b>	<b>24,874</b>
<b>ASSETS</b>			<b>48,250</b>	<b>39,149</b>

<b>EQUITY AND LIABILITIES</b>	in EUR thousand	Notes	<b>31.12.2016</b>	31.12.2015
<b>Current liabilities</b>				
Trade payables		17.1	1,957	1,609
Other liabilities		17.2	18,821	7,478
Short-term provisions		18	1,599	987
<b>Current liabilities, total</b>			<b>22,377</b>	<b>10,073</b>
<b>Non-current liabilities</b>				
Interest-bearing financial loans		19	2,257	3,424
Long-term provisions		20	1,525	1,290
<b>Non-current liabilities, total</b>			<b>3,782</b>	<b>4,714</b>
<b>Equity</b>				
Subscribed capital		21	24,155	24,155
Capital reserves		21	41,012	41,012
Other reserves		21	-6	-56
Retained earnings		21	-43,070	-40,748
<b>Equity, total</b>			<b>22,091</b>	<b>24,362</b>
<b>EQUITY AND LIABILITIES</b>			<b>48,250</b>	<b>39,149</b>

## CASH FLOW STATEMENT

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

in EUR thousand	2016	2015
<b>Net profit before tax</b>	<b>-4,213</b>	<b>-13,498</b>
Adjustments for:		
Amortisation/depreciation on non-current assets	1,247	566
Financial income/financial expenditure	292	55
Other non-cash expenses/income	11	-192
Reclassified to cash flow from investing activities (asset disposals)	2	0
Changes in:		
Trade receivables	-105	81
Other assets and prepaid expenses	-7,224	-1,669
Trade payables	349	286
Other liabilities	8,751	3,277
Short-term provisions	612	362
Long-term provisions	235	651
Interest received	68	113
Interest paid	-344	-81
Taxes paid	-	-
<b>Cash flow from operating activities</b>	<b>-319</b>	<b>-10,048</b>
Payments received (+)/disbursements (-) for financial instruments	4,650	-1,006
Investments in intangible assets	-549	-385
Investments in tangible assets	-90	-1,730
Net losses (-)/gains (+) from asset disposals	2	-9
<b>Cash flow from investing activities</b>	<b>4,014</b>	<b>-3,121</b>
Payments received (+) from taking out financing loans	2,039	4,053
Disbursements (-) for redeeming financing loans	-629	-
Payments received from the capital increase for cash	-	7,664
Disbursements for transaction costs of capital increase	-	-62
<b>Cash flow from financing activities</b>	<b>1,410</b>	<b>11,654</b>
Change in available funds	5,105	-1,515
Available funds at the beginning of the period	5,073	6,588
<b>Available funds at the end of the period</b>	<b>10,178</b>	<b>5,073</b>
<b>Composition of cash, cash equivalents and securities at the end of the period</b>	<b>10,178</b>	<b>5,073</b>
Cash	9,481	2,801
Available-for-sale financial investments (available <3 months)	697	2,272

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
<b>As at 1 January 2015</b>	<b>21,959</b>	<b>35,586</b>	<b>18</b>	<b>-29,950</b>	<b>27,613</b>
Capital increase for contribution in kind	-	-	-	-	-
Capital increase for cash	2,196	5,468	-	-	7,664
Transaction costs of capital increase	-	-62	-	-	-62
Deferred tax relief for transaction costs	-	20	-	-	20
Net profit	-	-	-	-10,799	-10,799
Other comprehensive income	-	-	-74	-	-74
<i>Total comprehensive income</i>	-	-	-74	-10,799	-10,873
<b>As at 31 December 2015</b>	<b>24,155</b>	<b>41,012</b>	<b>-56</b>	<b>-40,748</b>	<b>24,362</b>
<b>As at 1 January 2016</b>	<b>24,155</b>	<b>41,012</b>	<b>-56</b>	<b>-40,748</b>	<b>24,362</b>
Capital increase for contribution in kind	-	-	-	-	-
Capital increase for cash	-	-	-	-	-
Transaction costs of capital increase	-	-	-	-	-
Deferred tax relief for transaction costs	-	-	-	-	-
Net profit	-	-	-	-2,322	-2,322
Other comprehensive income	-	-	50	-	50
<i>Total comprehensive income</i>	-	-	50	-2,322	-2,272
<b>As at 31 December 2016</b>	<b>24,155</b>	<b>41,012</b>	<b>-6</b>	<b>-43,070</b>	<b>22,091</b>

Explanations are provided in Note 21.

# NOTES

## TO THE FINANCIAL STATEMENTS ACCORDING TO IFRS FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2016

### 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, United Kingdom, (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, United Kingdom, 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.

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.«

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 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.

Lotto24 AG has no subsidiaries. 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 2016 and the fiscal year 2016 covered the period from 1 January 2016 to 31 December 2016.

These separate financial statements were prepared with a resolution of the Executive Board on 27 March 2017 and subsequently forwarded to the Supervisory Board for examination and approval. Publication was authorised with a resolution of the Executive Board on 27 March 2017.

## 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 2016 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.

#### New and revised standards applied in 2016

Compared to the separate financial statements according to IFRS as of 31 December 2015, the following new mandatory standards are to be applied by Lotto24 AG:

#### Amendments to IFRS 10, IFRS 12 and IAS 28 »Investment Entities: Applying the Consolidation Exception« (December 2014) (from/after 1 January 2016)

The amendments deal with items resulting from consolidation exceptions of investment entities. The amendments have no impact on our financial position and performance as the conditions for application are not met by Lotto24.

In addition, the IASB has revised or published further standards and interpretations that are applicable as of 2016 but will not have a material impact on the separate financial statements.

#### Voluntary, premature application of published standards not yet mandatory

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

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.

It resulted in amendments to three standards:

- *IFRS 1 First-time Adoption of International Financial Reporting Standards: The amendments deal with the deletion of short-term exemptions in paragraphs E3 – E7.*
- *IFRS 12 Disclosure of Interests in Other Entities: The amendments comprise clarifications on the scope of the standard. The disclosure requirements in the standard apply to those interests listed in paragraph 5 which are classified as*
  - *held for sale,*
  - *held for distribution or*
  - *discontinued operations in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Exceptions from the disclosure requirements of IFRS 12 are dealt with in paragraphs B10–B16.*
- *IAS 28 Investments in Associates and Joint Ventures: Clarification that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.*

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.

### 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. We are currently analysing the effects of the standard. With the exception of additional disclosures on first-time application, we do not expect any significant impact on the separate financial statements or our financial position and performance.

#### 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 over time) and amount in which revenue must be recognised. The standard also introduces new, extensive disclosures in the notes. The effects of the standard on our separate financial statements have been analysed. Due to our business model and the revenue definition used by Lotto24, there will be no significant impact on the separate financial statements or our financial position and performance – with the exception of additional disclosures on first-time application of IFRS 15, as expected.

#### 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. We have not yet begun to analyse the effects in detail.

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 are settled in cash but whose size depends on an equity instrument of the Company, 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.

#### 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.

Taking into account the special aspects of websites, the costs incurred in 2012 for the development of the Company's own website for external use are disclosed in the annual financial statements as self-produced intangible assets. Following initial use and expiry of the estimated useful life of three years, this intangible asset is carried at a pro memoria amount.

### 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 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 assets 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 assets. 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 bets 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 assets.

### 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 25.

### 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	<b>31.12.2016</b>	31.12.2015
Cash	9,481	2,801
Available-for-sale financial investments (available <3 months)	697	2,272
<b>Total</b>	<b>10,178</b>	<b>5,073</b>

Short-term securities of EUR 697 thousand (prior year: EUR 2,272 thousand) which are readily convertible and subject only to minor value fluctuation risks were classified as cash equivalents.

in EUR thousand	<b>31.12.2016</b>	31.12.2015
Reconciliation to the balance sheet:		
Available-for-sale financial investments (available <3 months)	697	2,272
Available-for-sale financial investments (available >3 months and <1 year)	-	4,587
Held-to-maturity financial investments	-	-
<b>Other financial assets</b>	<b>697</b>	<b>6,859</b>

### 4 SEGMENT REPORTING

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

## 5 REVENUES

in EUR thousand	2016	2015
Revenues	22,759	13,549
<b>Total</b>	<b>22,759</b>	<b>13,549</b>

In view of favourable external conditions with high jackpots for the »Lotto 6aus49« and »EuroJackpot« lotteries, increased billings resulted in comparatively higher revenues of EUR 22,759 thousand (prior year: EUR 13,549 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. In the reporting period, the gross margin improved to 11.3% (prior year: 9.9%).

Thanks to our successful marketing activities aimed at exploiting the above mentioned positive market environment, we also increased new customer registrations in 2016. As a result, the number of registered customers as of 31 December 2016 rose to 1,282 thousand (prior year: 883 thousand) – it developed over the year as follows:

in thousand	2016	2015
<b>Number of registered customers on 31 December of the previous year</b>	<b>883</b>	<b>521</b>
First quarter (new customers)	106	56
Second quarter (new customers)	69	153
Third quarter (new customers)	111	97
Fourth quarter (new customers)	113	56
<b>Number of registered customers on 31 December</b>	<b>1,282</b>	<b>883</b>

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 2016, the activity rate of Lotto24 customers amounted to 27.0% (prior year: 28.3%). It should be noted that the definition of the activity rate was changed slightly in 2016 (see Management Report).

## 6 OTHER OPERATING INCOME

in EUR thousand	2016	2015
Other operating income	58	636
<b>Total</b>	<b>58</b>	<b>636</b>

In fiscal year 2016, other operating income included stake refunds from state lottery companies due to technical errors in gaming operations (EUR 24 thousand; prior year: EUR 1 thousand).

In the previous year, other operating income mainly comprised items in connection with the insourcing of IT and the assumption of IT operations. These included contractual claims against former IT service providers for benefits in kind regarding IT equipment and additional compensation payments (EUR 325 thousand). Compensation payments from an IT service provider for a technical failure of the online platform were also recognized (EUR 260 thousand).

## 7 PERSONNEL EXPENSES

In fiscal year 2016, Lotto24 AG had a higher personnel expenses than in the same period last year.

in EUR thousand	2016	2015
Salaries	-7,273	-5,438
Social security contributions	-966	-630
<b>Total</b>	<b>-8,239</b>	<b>-6,067</b>

Mainly due to the year-on-year increase in employees over the full year and the higher valuation of phantom shares in line with the share price trend (EUR -1,283 thousand; prior year: EUR -651 thousand), personnel expenses rose in 2016. Details are provided in Note 20.

## 8 OTHER OPERATING EXPENSES

in EUR thousand	2016	2015
Marketing expenses	-10,824	-11,923
Direct operating expenses	-2,464	-3,009
Indirect operating expenses	-3,964	-6,062
<b>Total</b>	<b>-17,251</b>	<b>-20,995</b>

As of 31 December 2016, other operating expenses fell year on year by EUR 3,744 thousand, from EUR -20,995 thousand to EUR -17,251 thousand.

The following factors influenced this development:

- In view of favourable external conditions with high jackpots for »Lotto 6aus49« and »EuroJackpot«, marketing expenses in 2016 of EUR -10,824 thousand were down year on year (prior year: EUR -11,923 thousand) due to a strong reduction in CPL.
- Direct costs of operations (mainly costs for billings-related payment transactions as well as B2B and business services) fell from EUR -3,009 thousand to EUR -2,464 thousand. In the previous year, direct costs also included usage fees for external technical processing of gaming operations. Such costs have not been incurred since late 2015 when the processing of gaming operations was insourced. We expect that the remaining direct costs will increase in future, as they develop in proportion with billings.
- Indirect operating expenses fell from EUR -6,062 thousand to EUR -3,964 thousand. The decreased use of external management and consultancy services due to IT insourcing was a major factor in the decline of consultancy expenses to EUR -1,996 thousand (prior year: EUR -3,243 thousand). At the same time, external IT costs fell to EUR -579 thousand (prior year: EUR -1,311 thousand) due to the insourcing of software development.

## 9 FINANCIAL RESULT

in EUR thousand	<b>2016</b>	2015
Revenues from financial activities	68	113
Expenses from financial activities	-359	-168
<b>Total</b>	<b>-292</b>	<b>-55</b>

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 annual result in fiscal year 2016 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, as on the one hand the IFRS method of recognising the self-created website as an intangible asset contrasts with the recognition/capitalisation prohibition of the tax balance sheet and on the other the goodwill carried according to IFRS 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 2015 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 2016 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	<b>2016</b>	2015
<b>Actual tax expense</b>		
Tax expense due to capital increase costs from IPO (directly offset in equity)	-	-20
Tax income from the recognition of deferred tax assets on loss carryforwards due to temporary differences	2,296	3,124
Tax expense from the recognition of deferred tax liabilities due to temporary differences	-406	-405
<b>Deferred taxes</b>	<b>1,891</b>	<b>2,699</b>
<b>Actual and deferred income taxes</b>	<b>1,891</b>	<b>2,699</b>

in EUR thousand	<b>2016</b>	2015
<b>Tax reconciliation</b>		
Net profit before taxes	-4,213	-13,498
Tax rate	32.28%	32.28%
Expected tax expense	1,360	4,357
Additions according to Section 8 GewSt	-18	-
Tax effects from operating expenses not fully deductible	-21	-21
Capitalisation of previously unrecognised loss carryforwards	595	-
Deferred taxes on current/historic loss carryforwards not capitalised due to change in shareholders	-	-1,636
Others	-25	-
<b>Actual and deferred income taxes</b>	<b>1,891</b>	<b>2,699</b>

Deferred tax assets and liabilities developed as follows:

in EUR thousand	<b>31.12.2016</b>	Income(+)/ expense(-)	Neutral (through equity)	01.01.2016
<b>Deferred tax assets</b>				
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
	<b>7,254</b>	<b>2,296</b>	<b>-24</b>	<b>4,981</b>
Netting with deferred tax liabilities	-1,825			
<b>Total</b>	<b>5,429</b>			

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

in EUR thousand	31.12.2015	Income(+)/ expense(-)	Neutral (through equity)	01.01.2015
<b>Deferred tax assets</b>				
Deferred tax assets due to temporary differences	34	3	27	5
Deferred tax assets due to tax loss carryforwards	4,947	3,121	-	1,826
	<b>4,981</b>	<b>3,124</b>	<b>27</b>	<b>1,830</b>
Netting with deferred tax liabilities	-1,420			
<b>Total</b>	<b>3,562</b>			

in EUR thousand	31.12.2015	Income(+)/ expense(-)	Neutral (through equity)	01.01.2015
<b>Deferred tax liabilities</b>				
Deferred tax liabilities due to temporary differences (income statement)	1,420	-405	-	1,015
Deferred tax liabilities due to temporary differences (equity)	-	-	9	9
	<b>1,420</b>	<b>-405</b>	<b>9</b>	<b>1,023</b>
Netting with deferred tax assets	-1,420			
<b>Total</b>	<b>0</b>			

The income taxes of EUR 1,891 thousand (prior year: EUR 2,699 thousand) disclosed in the income statement result from the total changes in deferred tax assets and deferred tax liabilities affecting the income statement. In addition, there are tax effects carried in equity (EUR 0 thousand; prior year: EUR -20 thousand) from transaction costs for the capital increase (EUR 0 thousand; prior year: EUR -62 thousand). The income tax effects of changes in equity amounting to EUR -24 thousand (prior year: EUR 35 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 and experience of management 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. Moreover, Lotto24 has a significant competitive advantage: experienced management which has already successfully operated the marketing of online lottery brokerage and boasts experience in the lottery, gaming and e-commerce markets.

## 11 CASH AND OTHER FINANCIAL ASSETS

in EUR thousand	<b>31.12.2016</b>	31.12.2015
<b>Cash</b>		
Bank balances	9,481	2,801
Cash on hand	0	1
<b>Total</b>	<b>9,481</b>	<b>2,801</b>

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

in EUR thousand	<b>31.12.2016</b>	31.12.2015
<b>Reconciliation to other financial assets</b>		
Other financial assets		
Available-for-sale financial investments	697	6,859
Held-to-maturity financial investments	-	-
<b>Total</b>	<b>697</b>	<b>6,859</b>

Available-for-sale financial investments consist of floating rate notes and shares in pension and money market funds with a wide investment spread which are managed by a bank. A change in equity prior to income tax effects of EUR 74 thousand (prior year: EUR -109 thousand) was recognised for these assets on the basis of their evaluation.

As of 31 December 2016, there were no held-to-maturity financial investments (prior year: EUR - thousand).

in EUR thousand	<b>31.12.2016</b>	31.12.2015
<b>Reconciliation to available funds</b>		
Cash	9,481	2,801
Other financial assets	697	6,859
<b>Available funds</b>	<b>10,178</b>	<b>9,660</b>

## 12 TRADE RECEIVABLES

in EUR thousand	<b>31.12.2016</b>	31.12.2015
Receivables from customers	246	154
Receivables from amounts passed on	24	13
Receivables from affiliated companies	5	2
<b>Total</b>	<b>274</b>	<b>169</b>

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 -450 thousand (prior year: EUR -621 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	<b>31.12.2016</b>	31.12.2015
Receivables from gaming operations	10,149	3,180
Deposits	976	967
Prepaid expenses	537	298
Tax receivables (VAT)	7	-
Others	-	-
<b>Total</b>	<b>11,669</b>	<b>4,445</b>

As a result of increased billings due to jackpots and reporting date effects, receivables from gaming operations rose and comprise receivables on customer winnings to be forwarded, 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	2016	2015
<b>Acquisition costs as of 1 January</b>	<b>18,850</b>	<b>18,850</b>
Additions (purchased from third parties)	-	-
Additions (self-provided)	-	-
Disposals	-	-
<b>Acquisition costs as of 31 December</b>	<b>18,850</b>	<b>18,850</b>
<b>Accumulated acquisition costs as of 1 January</b>	<b>-</b>	<b>-</b>
Depreciation of the period	-	-
Disposals	-	-
<b>Accumulated acquisition costs as of 31 December</b>	<b>-</b>	<b>-</b>
<b>Net book value as of 31 December</b>	<b>18,850</b>	<b>18,850</b>

Goodwill consists of the business operation of online lottery brokerage contributed to the Company in the form of a contribution in kind. The resulting goodwill (by derivation) has no estimable life expectancy and is not amortised in scheduled amounts (impairment-only approach). Instead of amortisation, the asset is subjected to an impairment test according to IAS 36 at least once per year – or during the year if there are indications of impairment.

The impairment test begins with a comparison of market capitalisation and the carrying value of equity. As of 31 December 2016, market capitalisation was above the carrying value of equity. Moreover, we examine 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. For the discounting of cash flows in the detailed planning period, we used unchanged average costs of capital after taxes of 12.0% (prior year: 12.0%) under the aspect of pure venture capital financing. These discount rates have since reached the lower end of the return requirement range of investors in comparable companies. The corresponding average cost of capital before taxes amounted to 11.28% (prior year: 13.45%).

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 development of business within the scope of the current permits and the regulatory environment.

At the end of the detailed planning period, the years after 2022 (prior year: after 2021) apply a reconciled perpetual annuity based on the capital asset pricing model (CAPM) discounted with an average cost of capital of 9.9% (prior year: 10.5%). The calculation of the perpetual annuity is based on a sustainable, average growth rate (perpetual annuity) of around 1.4% (prior year: 2.4%). For discounting purposes, we consider the growth rate as the discount on the capital asset pricing model.

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	2016	2015
<b>Acquisition costs as of 1 January</b>	<b>1,124</b>	<b>739</b>
Additions (purchased from third parties)	549	385
Additions (self-provided)	-	-
Disposals	-	-
<b>Acquisition costs as of 31 December</b>	<b>1,673</b>	<b>1,124</b>
<b>Accumulated depreciation as of 1 January</b>	<b>-574</b>	<b>-255</b>
Depreciation of the period	-653	-318
Disposals	-	-
<b>Accumulated depreciation as of 31 December</b>	<b>-1,227</b>	<b>-574</b>
<b>Net book value as of 31 December</b>	<b>445</b>	<b>550</b>

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 and the set-up of a business intelligence system.

## 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	2016	2015
<b>Acquisition costs as of 1 January</b>	<b>2,244</b>	<b>365</b>
Additions (purchased from third parties)	90	1,882
Additions (self-provided)	-	-
Disposals	-5	-3
<b>Acquisition costs as of 31 December</b>	<b>2,329</b>	<b>2,244</b>
<b>Accumulated depreciation as of 1 January</b>	<b>-331</b>	<b>-85</b>
Depreciation of the period	-594	-248
Disposals	0	2
<b>Accumulated depreciation as of 31 December</b>	<b>-925</b>	<b>-331</b>
<b>Net book value as of 31 December</b>	<b>1,404</b>	<b>1,913</b>

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 software and hardware for workstations (EUR 45 thousand), as well as data centre equipment (EUR 27 thousand).

There are currently no assets from financial leases.

## 17 CURRENT LIABILITIES

### 17.1 TRADE PAYABLES

in EUR thousand	31.12.2016	31.12.2015
Trade payables	1,957	1,609
<b>Total</b>	<b>1,957</b>	<b>1,609</b>

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	<b>31.12.2016</b>	31.12.2015
Liabilities from gaming operations	14,950	6,593
Interest-bearing loan	3,206	629
Amounts due in connection with taxes (VAT payroll and church taxes) and social security	347	90
Holiday obligations	140	74
Interest liabilities	102	87
Other	75	5
<b>Total</b>	<b>18,821</b>	<b>7,478</b>

As of 31 December 2016, other liabilities rose to EUR 18,821 thousand (prior year: EUR 7,478 thousand). They mainly comprise liabilities from gaming operations of EUR 14,950 thousand (prior year: EUR 6,593 thousand), which were not only influenced by the jackpot-related increase in billings but also comparatively higher customer winnings close to 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. The item also includes small winnings which customers leave on their gaming accounts and use later to pay for tickets. The item interest-bearing loans includes current payments, due within one year, for the loan in connection with IT insourcing (EUR 3,000 thousand; prior year: EUR – thousand) and the current payments, due within twelve months, for IT equipment at our new data centres (hire purchase agreements: EUR 206 thousand; prior year: EUR 629 thousand). As a result of reporting date effects, there was a rise in amounts due in connection with taxes – mostly from sales activity (EUR 246 thousand; prior year: EUR 11 thousand) – as well as in payroll obligations (EUR 100 thousand; prior year: EUR 79 thousand) and holiday obligations (EUR 140 thousand; prior year: EUR 74 thousand) – due in part to the increase in headcount. Interest obligations at the end of the reporting period (EUR 102 thousand; prior year: EUR 87 thousand) resulted from loans taken out.

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	<b>31.12.2016</b>	31.12.2015
Bonus	1,095	922
Share-based remuneration (short-term)	435	–
Litigation costs	50	50
Other	19	15
<b>Total</b>	<b>1,599</b>	<b>987</b>

Bonus provisions were formed pro rata temporis in 2016. All provisions are expected to be used within one year.

## 19 LONG-TERM FINANCIAL LOANS

in EUR thousand	<b>31.12.2016</b>	31.12.2015
Günther Group loan	2,000	-
Obligations from hire purchase agreements	257	424
IT insourcing loan	-	3,000
<b>Total</b>	<b>2,257</b>	<b>3,424</b>

Interest-bearing financial loans comprise longer-term financial obligations which are also used for the funding of operations. They include the loan taken out with the Günther Group in September 2016 (EUR 2,000 thousand; prior year: EUR - thousand) and the non-current portion of hire purchase agreements for IT equipment at the new data centres in Germany (EUR 257 thousand; prior year: EUR 424 thousand). In the previous year, we utilised in full a loan facility (EUR 3,000 thousand) to finance IT insourcing and fund operations. Further information is provided in Note 17.2.

## 20 LONG-TERM PROVISIONS

in EUR thousand	<b>31.12.2016</b>	31.12.2015
Share-based remuneration	1,525	1,290
<b>Total</b>	<b>1,525</b>	<b>1,290</b>

The members of the Executive Board have been granted a share-based remuneration programme (phantom shares with cash compensation). 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, the initial value of the nominal remuneration claim in euro increased to EUR 410 thousand (prior year: EUR 330 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.

## 21 EQUITY

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

in EUR thousand	<b>31.12.2016</b>	31.12.2015
Subscribed capital	24,155	24,155
Capital reserves	41,012	41,012
Other reserves	-6	-56
Retained earnings	-43,070	-40,748
<b>Total</b>	<b>22,091</b>	<b>24,362</b>

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. Other reserves include the result of revaluing available-for-sale financial assets after deduction of income tax effects.

## 21.1 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.

## 21.2 CAPITAL RESERVES

Capital reserves as at 31 December 2016 contain reserves blocked according to commercial law as well as a block on profit distribution from the capitalisation of deferred taxes and self-created intangible assets of EUR 10,901 thousand (prior year: EUR 7,794 thousand).

They amount to EUR 41,012 thousand (prior year: EUR 41,012 thousand) and include the capital reserve of Lotto24 AG recognised according to HGB of EUR 42,405 thousand (prior year: EUR 42,405 thousand), as well as issuance transaction costs from equity measures conducted since 2012 of EUR -1,368 thousand (prior year: EUR -1,368 thousand) and unchanged costs for the capital increase for contribution in kind of EUR 25 thousand (prior year: EUR 25 thousand), which are carried in the IFRS separate financial statements as a deduction from equity.

The capital reserve recognised according to HGB of EUR 42,405 thousand (prior year: EUR 42,405 thousand) contains restricted reserves of EUR 30,427 thousand (prior year: EUR 30,427 thousand). As of 31 December 2016, Lotto24 AG disclosed free reserves according to HGB of EUR 11,978 thousand (prior year: EUR 11,978 thousand), for which there is a block on profit distribution due to the capitalisation of deferred taxes in the annual financial statements of Lotto24 AG amounting to EUR 10,901 thousand (prior year: EUR 7,794 thousand).

## 22 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	2017	2018	2019	2020	2021 und später	<b>Summe</b>
Other contracts	1,239	411	202	37	-	<b>1,890</b>

## 23 RELATED PARTIES

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

Apart from the remuneration of the Executive Board and Supervisory Board (see Note 26), there were no reportable business relationships with executive bodies of the Company in the reporting period. The short-term benefits for the Executive Board, consisting of the annual variable remuneration and the phantom shares, totalled EUR 888 thousand (prior year: EUR 883 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 2016 to 31 December 2016.

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 26.

## 24 DISCLOSURES RELATING TO FINANCIAL INSTRUMENTS

On 31 December 2016, Lotto24 AG held available-for-sale financial instruments amounting to EUR 697 thousand (31 December 2015: EUR 6,859 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. For non-publicly traded financial instruments, we measure fair value on the basis of a reasonable estimate of future net cash flows.

### Non-current financial assets

The fair value of non-current financial assets is based on the issue price available for like or similar securities and can differ considerably from the acquisition cost carried in the balance sheet.

### 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	<b>2016</b>	2015	<b>2016</b>	2015
	Recognised directly in equity		Recognised in profit or loss	
<b>Financial assets</b>				
Cash	-	-	-	-
Short-term financial investments				
Available-for-sale financial investments	50	-74	68	113
Held-to-maturity financial investments	-	-	-	-
<b>Financial liabilities</b>				
Financial loans	-	-	-359	-168
<b>Financial result</b>	<b>50</b>	<b>-74</b>	<b>-292</b>	<b>-55</b>

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

**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
<b>ASSETS</b>						
<b>Cash and short-term investments</b>						
Receivables	9,481	-	-		9,481	9,481
<b>Other financial assets</b>						
Available-for-sale financial investments	-	697	-	697		
Held-to-maturity financial investments	-	-	-	-		
				<b>697</b>	697	697
<b>Trade receivables</b>						
Receivables	274	-	-		274	274
<b>Other receivables and prepaid expenses</b>						
Receivables	11,125	-	544	11,669		
				<b>11,669</b>	11,669	11,669
<b>Total</b>					<b>22,121</b>	<b>22,121</b>
of which financial loans and receivables					20,880	20,880
of which available-for-sale financial investments					697	697
of which held-to-maturity financial investments					-	-
<b>LIABILITIES</b>						
<b>Short-term financial liabilities</b>						
<b>Trade payables</b>						
Financial liabilities	1,957	-	-		1,957	1,957
<b>Other liabilities</b>						
Other liabilities	18,333	-	488	18,821		
<b>Short-term provisions</b>						
Non-financial liabilities	-	-	1,599	1,599		
				<b>20,420</b>	20,420	20,420
<b>Long-term liabilities</b>						
Financial loans	2,257	-	-		2,257	2,257
<b>Long-term provisions</b>						
Non-financial liabilities	-	-	1,525		1,525	1,525
<b>Total</b>					<b>26,159</b>	<b>26,159</b>
of which financial liabilities measured at amortised cost					22,548	22,548

## FINANCIAL INSTRUMENTS 2015

in EUR thousand	Amortised cost	Fair value	Non-financial assets/liabilities	Total	Book value 31.12.2015	Fair value 31.12.2015
<b>ASSETS</b>						
<b>Cash and short-term investments</b>						
Receivables	2,801	-	-		2,801	2,801
<b>Other financial assets</b>						
Available-for-sale financial investments	-	6,859	-	6,859		
Held-to-maturity financial investments	-	-	-	-		
				<b>6,859</b>	6,859	6,859
<b>Trade receivables</b>						
Receivables	169	-	-		169	169
<b>Other receivables and prepaid expenses</b>						
Receivables	4,148	-	298	4,445		
				<b>4,445</b>	4,445	4,445
<b>Total</b>					<b>14,275</b>	<b>14,275</b>
of which financial loans and receivables					7,118	7,118
of which available-for-sale financial investments					6,859	6,859
of which held-to-maturity financial investments					-	-
<b>LIABILITIES</b>						
<b>Short-term financial liabilities</b>						
<b>Trade payables</b>						
Financial liabilities	1,609	-	-		1,609	1,609
<b>Other liabilities</b>						
Other liabilities	7,313	-	165	7,478		
<b>Short-term provisions</b>						
Non-financial liabilities	-	-	987	987		
				<b>8,465</b>	8,465	8,465
<b>Long-term liabilities</b>						
Financial loans	3,424	-	-		3,424	3,424
<b>Long-term provisions</b>						
Non-financial liabilities	-	-	1,290		1,290	1,290
<b>Total</b>					<b>14,787</b>	<b>14,787</b>
of which financial liabilities measured at amortised cost					12,345	12,345

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 comprise available-for-sale securities and are measured according to their Level 1 classification on the basis of market prices.

## 24.1 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 ongoing adverse 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.

Due to the increased total amount of cash and short-term financial assets held by Lotto24 AG, and the resulting absolute and relative importance, we have established extensive management processes to steer and regularly monitor the Company's investment strategy. Cash and short-term financial assets are generally invested in short-term securities offering as much liquidity and as little volatility as possible, while ensuring risk diversification. Following regular monitoring, there were specific default risks in the portfolio as of the balance sheet date.

## 24.2 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.

### 24.3 INTEREST RATE RISK

Lotto24 holds its financial funds as pension and money market funds or sight deposits with three banks. The financial fund assets currently held do not bear any currency risk. As the cash balances are held in liquid form or placed in short-term investments, however, there is a basic albeit insignificant interest rate risk. Irrespective of this, in view of the current adverse climate on the financial markets there is a default risk for the agreed interest as well as invested amounts including the bank deposits.

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

in EUR thousand	Variable interest rates	Fixed interest rates	<b>Total</b>
<b>31.12.2015</b>			
<b>Cash and pledged cash</b>	2,801	-	2,801
<b>Short-term financial assets</b>			
Available-for-sale financial investments	6,859	-	6,859
Held-to-maturity financial investments	-	-	-
<b>Total</b>	<b>9,660</b>	<b>-</b>	<b>9,660</b>

We have invested the majority of our financial funds in a combination of current bank account balances, short-term pension and money market funds, and short-term floating rate notes. For these funds, there is a general risk from changing interest rates. A sensitivity analysis was conducted for the portfolio of cash and short-term financial instruments held on 31 December 2016 with a simulated interest rate increase of 50 base points. Assuming no changes are made to the portfolio in response to the interest rate increase, and under consideration of the duration of those investments currently in the portfolio, there would be an average calculated reduction of this interest income of EUR 14 thousand (prior year: EUR 73 thousand) or a market price fall of 2.00% (prior year: fall of 6.24%).

## 25 EVENTS AFTER 31 DECEMBER 2016

### Decision on German Money Laundering Act (GWG)

With its decision of 17 January 2017, the Ministry of the Interior for Lower Saxony partially exempted Lotto24 from the application of various GWG obligations. The exemptions include internal safeguards within the risk management system, obligations to acquire customer data, identification and information requirements. The Ministry of the Interior rejected our application for exemption from further obligations. We believe that the remaining obligations will not significantly affect our business and will apply equally to all gaming providers. Nevertheless, we are reviewing the extent to which we can appeal against the decision – especially with regard to the imminent revision of the GWG to implement the Fourth EU Money Laundering Directive.

### Advertising permit extended

The District Government of Dusseldorf last prolonged the advertising permit we received in March 2013 on 26 January 2017. The prolongation is initially tied to the remaining term of the brokerage permit until 23 September 2017 and will be extended after the new brokerage permit has been granted until 12 March 2019 in accordance with the usual two-year prolongation period. 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.

### »Hamburg's Best Employers« accolade received again in 2017

At an award ceremony held on 27 January 2017, we were once named one of »Hamburg's Best Employers« with the top score of five stars. We already received this special award in 2015 for our outstanding HR work. 256 Hamburg-based companies took part in the competition, which is run annually by Hamburg's Helmut Schmidt University, the Institute for Management and Economic Research »IMWF«, the radio station »alsterradio 106.8« and local newspaper »Hamburger Abendblatt«.

## 26 OTHER DISCLOSURES

### 26.1 EXECUTIVE BOARD

Ms 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.

Mr von Zitzewitz is responsible for Legal Affairs and Regulation, Finance, Accounts, Taxes, Controlling, Compliance, Risk Management, and Communication.

Mr Hannemann has taken over responsibility 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.

The members of the Executive Board work on a full-time basis. Their remuneration in fiscal year 2016 comprised the following elements:

### BENEFITS GRANTED

Petra von Strombeck, Chief Executive Officer as of 01.07.2012				
in EUR thousand	<b>2016</b>	<b>2016 (min.) variable</b>	<b>2016 (max.) variable</b>	2015
Fixed remuneration	300	–	–	300
Benefits	–	–	–	–
<b>Total (fixed)</b>	<b>300</b>	<b>–</b>	<b>–</b>	<b>300</b>
One-year variable remuneration	243	–	400	247
Multi-year variable remuneration	265	–	600	194
Phantom shares 2012–2016 (4 years) <sup>1)</sup>	–	–	–	–
Phantom shares 2013–2017 (4 years) <sup>1)</sup>	–	–	–	–
Phantom shares 2014–2018 (4 years) <sup>1)</sup>	–	–	–	75
Phantom shares 2015–2019 (4 years) <sup>1)</sup>	150	–	300	119
Phantom Shares 2016–2020 (4 years) <sup>1)</sup>	115	–	300	–
<b>Total (variable)</b>	<b>508</b>	<b>–</b>	<b>1,000</b>	<b>441</b>
Remuneration expense	–	–	–	–
<b>Total remuneration</b>	<b>808</b>	<b>–</b>	<b>1,000</b>	<b>741</b>

<sup>1)</sup> fair value of phantom shares granted monthly, depending on the current share price  
The nominal values of the granted phantom shares amount to EUR 100 thousand in each case.

### BENEFITS GRANTED

Magnus von Zitzewitz, Member of the Executive Board as of 01.07.2012				
in EUR thousand	<b>2016</b>	<b>2016 (min.) variable</b>	<b>2016 (max.) variable</b>	2015
Fixed remuneration	200	–	–	200
Benefits	–	–	–	–
<b>Total (fixed)</b>	<b>200</b>	<b>–</b>	<b>–</b>	<b>200</b>
One-year variable remuneration	165	–	260	146
Multi-year variable remuneration	172	–	390	126
Phantom shares 2012–2016 (4 years) <sup>1)</sup>	–	–	–	–
Phantom shares 2013–2017 (4 years) <sup>1)</sup>	–	–	–	–
Phantom shares 2014–2018 (4 years) <sup>1)</sup>	–	–	–	49
Phantom shares 2015–2019 (4 years) <sup>1)</sup>	97	–	195	77
Phantom Shares 2016–2020 (4 years) <sup>1)</sup>	75	–	195	–
<b>Total (variable)</b>	<b>337</b>	<b>–</b>	<b>650</b>	<b>272</b>
Remuneration expense	–	–	–	–
<b>Total remuneration</b>	<b>537</b>	<b>–</b>	<b>650</b>	<b>472</b>

<sup>1)</sup> fair value of phantom shares granted monthly, depending on the current share price  
The nominal values of the granted phantom shares amount to EUR 65 thousand in each case.

**BENEFITS GRANTED**

Kai Hannemann, Member of the Executive Board  
as of 01.07.2016

in EUR thousand	2016	2016 (min.) variable	2016 (max.) variable	2015
Fixed remuneration	90	-	-	-
Benefits	-	-	-	-
<b>Total (fixed)</b>	<b>90</b>	<b>-</b>	<b>-</b>	<b>-</b>
One-year variable remuneration	44	-	80	-
Multi-year variable remuneration	46	-	120	-
Phantom shares 2012–2016 (4 years) <sup>1)</sup>	-	-	-	-
Phantom shares 2013–2017 (4 years) <sup>1)</sup>	-	-	-	-
Phantom shares 2014–2018 (4 years) <sup>1)</sup>	-	-	-	-
Phantom shares 2015–2019 (4 years) <sup>1)</sup>	-	-	-	-
Phantom Shares 2016–2020 (4 years) <sup>1)</sup>	46	-	120	-
<b>Total (variable)</b>	<b>90</b>	<b>-</b>	<b>200</b>	<b>-</b>
Remuneration expense	-	-	-	-
<b>Total remuneration</b>	<b>180</b>	<b>-</b>	<b>200</b>	<b>-</b>

<sup>1)</sup> fair value of phantom shares granted monthly, depending on the current share price  
The nominal values of the granted phantom shares amount to EUR 40 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 as of 01.07.2016	
	2016	2015	2016	2015	2016	2015
Fixed remuneration	300	300	200	200	90	-
Benefits	-	-	-	-	-	-
<b>Total (fixed)</b>	<b>300</b>	<b>300</b>	<b>200</b>	<b>200</b>	<b>90</b>	<b>-</b>
One-year variable remuneration	247	103	146	137	-	-
Multi-year variable remuneration	371	-	241	-	-	-
Phantom shares 2012–2016 (4 years) <sup>1)</sup>	371	-	241	-	-	-
Phantom shares 2013–2017 (4 years) <sup>1)</sup>	-	-	-	-	-	-
Phantom shares 2014–2018 (4 years) <sup>1)</sup>	-	-	-	-	-	-
Phantom shares 2015–2019 (4 years) <sup>1)</sup>	-	-	-	-	-	-
Phantom Shares 2016–2020 (4 years) <sup>1)</sup>	-	-	-	-	-	-
Other	-	-	-	-	-	-
<b>Total (variable)</b>	<b>619</b>	<b>103</b>	<b>387</b>	<b>137</b>	<b>-</b>	<b>-</b>
Remuneration expense	-	-	-	-	-	-
<b>Total remuneration</b>	<b>919</b>	<b>403</b>	<b>587</b>	<b>337</b>	<b>90</b>	<b>-</b>

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 2016**

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

**REMUNERATION 2015**

in EUR thousand	Fixed remuneration	Variable remuneration	<b>31.12.2015</b>
Petra von Strombeck	300	247	547
Magnus von Zitzewitz	200	146	346
Kai Hannemann	-	-	-
<b>Total</b>	<b>500</b>	<b>393</b>	<b>893</b>

**PHANTOM SHARES 2016**

	Number of virtual shares (thousand units)	Fair value on grant date (EUR thousand)	Provision for share-based payment 31.12.2016 (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
<b>Total</b>	<b>323</b>	<b>1,236</b>	<b>1,960</b>	<b>435</b>	<b>1,525</b>

**PHANTOM SHARES 2015**

	Number of virtual shares (thousand units)	Fair value on grant date (EUR thousand)	Provision for share-based payment 31.12.2015 (EUR thousand)	- of which disclosed under short-term provisions	- of which disclosed under long-term provisions
Petra von Strombeck	214	657	782	-	782
Magnus von Zitzewitz	139	427	508	-	508
Kai Hannemann	-	-	-	-	-
<b>Total</b>	<b>353</b>	<b>1,083</b>	<b>1,290</b>	<b>0</b>	<b>1,290</b>

## 26.2 SUPERVISORY BOARD

The following persons held seats on the Supervisory Board of Lotto24 AG in fiscal year 2016:

- 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. 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)

Mr 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, United Kingdom (Member of the Supervisory Board)
- next media accelerator GmbH, Hamburg (Member of the Advisory Committee)
- RNTS MEDIA N.V., Berlin (Member of the Supervisory Board)
- youvestor Aktiengesellschaft, Frankfurt am Main (Member of the Supervisory Board; mandate ended on 26 January 2017)

Mr 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, United Kingdom (Member of the Supervisory Board)

### SUPERVISORY BOARD REMUNERATION

in EUR thousand	<b>2016</b>	2015
Prof. Willi Berchtold	63	63
Jens Schumann	38	38
Thorsten Hehl	25	25
<b>Gesamt</b>	<b>125</b>	<b>125</b>

## 26.3 EMPLOYEES

At the end of the reporting period on 31 December 2016, Lotto24 AG had 79 employees (full-time equivalents, excluding the three Executive Board members, prior year: 70). Most employees were employed in the Marketing and IT departments (79%; prior year: 81%). In addition, Lotto24 AG employed 8 student helpers (prior year: 19) – mainly in customer service. The average headcount of the quarterly reporting dates was 76 employees in 2016 (prior year: 61).

## 26.4 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 21 (1) WpHG and published by us pursuant to Section 26 (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 to its present 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, **Working Capital Partners, Ltd.**, Cayman Islands, informed us on 11 March 2015 that its shareholding in Lotto24 AG, Hamburg, Germany, exceeded the threshold of 3% and 5% of voting rights on 5 March 2015 and on this day amounted to 5.001% (corresponding to 1,098,248 voting rights).«

»In accordance with Section 21 (1) WpHG, **Working Capital Management Pte Ltd.**, Singapore, Singapore, informed us on 16 March 2015 that its shareholding in Lotto24 AG, Hamburg, Germany, exceeded the threshold of 3% and 5% of voting rights on 5 March 2015 and on this day amounted to 5.001% (corresponding to 1,098,248 voting rights). In accordance with Section 22 (1) Sentence 1 Number 6 WpHG, 5.001% of voting rights (corresponding to 1,098,248 voting rights) are attributable to Working Capital Partners, Ltd.«

»In accordance with Section 21 (1) WpHG, **FIL Holdings (UK) Limited**, Hildenborough, United Kingdom, 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, United Kingdom, 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 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 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 controlled person or highest controlled 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.«

»**Forager 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.«

## 26.5 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 13 et seq of this Annual Report and via the Company's website (Lotto24-ag.de).

## 26.6 AUDITING COSTS

in EUR thousand	2016	2015
Auditing fees	88	60
Other consulting services	-	23
Tax consulting services	6	5
Other services	14	18
<b>Total</b>	<b>108</b>	<b>106</b>

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, 27 March 2017

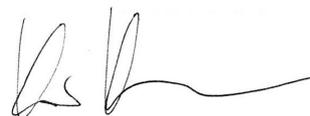
The Executive Board



**Petra von Strombeck**  
Chief Executive Officer



**Magnus von Zitzewitz**  
Member of the Executive Board



**Kai Hannemann**  
Member of the Executive Board

## AUDIT OPINION

We have issued the following audit opinion on the separate annual financial statements according to Section 325 (2a) HGB and the management report:

»We have audited the separate financial statements – comprising the income statement, statement of comprehensive income, balance sheet, cash flow statement, statement of changes in equity, and the notes to the financial statements – together with the accounts and management report of Lotto24 AG, Hamburg, for the fiscal year from 1 January to 31 December 2016, in accordance with Section 325 (2a) HGB. The accounts and the preparation of the separate financial statements and management report in accordance with IFRSs as adopted by the EU, as well as the additional requirements of German commercial law pursuant to Section 325 (2a) HGB, are the responsibility of the Company's management. Our responsibility is to express an opinion on the separate financial statements, together with the accounts and management report, based on our audit.

We conducted our audit of the financial statements in accordance with Section 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the separate financial statements in accordance with the applicable financial reporting framework and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the separate financial statements, accounts and management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements and the management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the financial statements comply with IFRSs as adopted by the EU, the additional requirements of German commercial law pursuant to Section 325 (2a) HGB and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with these requirements. The management report is consistent with the financial statements, complies with the legal requirements, and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.«

Hamburg, 27 March 2017

Ernst & Young GmbH  
Wirtschaftsprüfungsgesellschaft

Brorhilker  
Auditor

Klimmer  
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, 27 March 2017

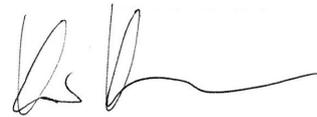
The Executive Board



**Petra von Strombeck**  
Chief Executive Officer



**Magnus von Zitzewitz**  
Member of the Executive Board



**Kai Hannemann**  
Member of the Executive Board

## KEY FIGURES

in EUR thousand	2016	Q. IV 2016	Q. III 2016	Q. II 2016	Q. I 2016	2015	Q. IV 2015
Billings	200,520	58,968	57,043	43,077	41,432	136,279	35,251
Stakes to be remitted (less revenues)	-177,762	-51,824	-50,657	-38,270	-37,011	-122,730	-31,687
<b>Revenues</b>	<b>22,759</b>	<b>7,145</b>	<b>6,386</b>	<b>4,807</b>	<b>4,420</b>	<b>13,549</b>	<b>3,564</b>
Other operating income	58	17	1	15	25	636	616
<b>Total performance</b>	<b>22,816</b>	<b>7,161</b>	<b>6,387</b>	<b>4,822</b>	<b>4,446</b>	<b>14,185</b>	<b>4,180</b>
Personnel expenses	-8,239	-2,343	-1,892	-2,023	-1,981	-6,067	-1,604
Amortisation/depreciation on intangible assets and property, plant and equipment	-1,247	-392	-333	-307	-215	-566	-232
Other operating expenses	-17,251	-4,675	-4,388	-3,800	-4,388	-20,995	-4,441
<b>Result from operating activities (EBIT)</b>	<b>-3,921</b>	<b>-249</b>	<b>-225</b>	<b>-1,308</b>	<b>-2,139</b>	<b>-13,443</b>	<b>-2,096</b>
Revenues from financial activities	68	-	-	0	67	113	2
Expenses from financial activities	-359	-102	-89	-83	-85	-168	-84
<b>Financial result</b>	<b>-292</b>	<b>-102</b>	<b>-89</b>	<b>-83</b>	<b>-18</b>	<b>-55</b>	<b>-82</b>
<b>Net profit before taxes</b>	<b>-4,213</b>	<b>-351</b>	<b>-314</b>	<b>-1,391</b>	<b>-2,157</b>	<b>-13,498</b>	<b>-2,178</b>
Income taxes	1,891	-626	379	780	1,358	2,699	1,492
<b>Net profit</b>	<b>-2,322</b>	<b>-977</b>	<b>64</b>	<b>-611</b>	<b>-798</b>	<b>-10,799</b>	<b>-685</b>
<b>Breakdown of other operating expenses</b>							
Marketing expenses	-10,824	-3,026	-2,773	-2,319	-2,707	-11,923	-2,072
Direct operating expenses	-2,464	-678	-691	-507	-587	-3,009	-502
Indirect operating expenses	-3,964	-971	-924	-975	-1,095	-6,062	-1,867
<b>Other operating expenses</b>	<b>-17,251</b>	<b>-4,675</b>	<b>-4,388</b>	<b>-3,800</b>	<b>-4,388</b>	<b>-20,995</b>	<b>-4,441</b>

## FINANCIAL CALENDAR

<b>10 May 2017</b>	Quarterly statement as of 31 March 2017
<b>30 May 2017</b>	Annual General Meeting
<b>9 August 2017</b>	Half-yearly financial report as of 30 June 2017
<b>8 November 2017</b>	Quarterly statement as of 30 September 2017

### PUBLISHED BY

Lotto24 AG  
Strassenbahnring 11  
20251 Hamburg  
Germany

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

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