

**888 Holdings Public Limited Company
(‘888’ or the ‘Company’)**

Annual financial report for the year ended 31 December 2011

888, one of the world's most popular online gaming entertainment and solutions providers, presents its annual financial report for the year ended 31 December 2011.

Financial Highlights

- Revenue increased 26% to US\$331.1m (2010: US\$262.1m)
- B2C Revenue increased 28% to US\$284.2m (2010: US\$221.7m)
- B2B Revenue increased 16% to US\$46.9 (2010: US\$40.4m)
- EBITDA* increased 94% to US\$55.6m (2010: US\$28.6m)
- EBITDA* margin increase to 17% (2010: 11%)
- As at 31 December 2011, 888 had 10.6 million Casino, Poker and Sport real money registered customer accounts, representing an increase of 22% since 31 December 2010

Operational Highlights

- Appointment of Brian Mattingley as CEO
- Refocused strategy - maximising revenues and expanding profit margins
- Success of Poker 6; recent launch of Casino 50
- Successful launch in Italy
- Agreement with CIE in US - first strand in US online strategy

Current Trading

The first quarter of the year started well: average daily revenue was more than 2% above the strong Q4 2011. Encouragingly average daily new customer recruitment is more than 15% above Q4 2011 demonstrating the strength of the business for future growth.

Brian Mattingley, CEO of 888 commented:

"I am delighted and proud to have officially taken the helm at 888. 2011 has been a phenomenal year for us, refocusing on our core product offer and the success of our Poker 6 platform has delivered exceptional growth across all key metrics.

We are more than ready to take advantage of liberalisation in the industry. We have a unique position in the US allowing the launch of a real money offering immediately as either federal or state based regulation is finalised and upon licensing by gaming authorities.

The promising start of 2012 demonstrates healthy growth over and above the strong Q4 2011 and underpins our strategy and expectations for 2012."

* Excluding restructuring costs totaling US\$4.9 million (2010: US\$2.2 million) US\$1.0 million from operating expenses and US\$3.9 million from administrative expenses (2010: US\$1.2 million from operating expenses, US\$0.6 million from research and development and US\$0.4 million from administrative expenses), share benefit charges of US\$2.4 million (2010: US\$2.3 million) and impairment charges of US\$20.7 million (2010: nil)

Financial Summary

	Year ended 31 December 2011 ¹	Year ended 31 December 2010 ¹
	\$ million	\$ million
Revenue		
B2C		
Casino	148.0	116.9
Poker	60.6	38.4
Bingo	54.0	50.1
Emerging Offering	21.6	16.2
Total B2C	284.2	221.7
B2B	46.9	40.4
Revenue	331.1	262.1
Operating Expenses ^{2,3}	108.6	97.2
Gaming taxes and duties	7.3	1.4
Research and Development Expenses ³	29.9	21.8
Selling and Marketing Expenses	102.3	91.5
Administrative Expenses ^{3,4}	27.5	21.6
EBITDA^{3,4}	55.6	28.6
Exchange losses and net Finance costs	(13.1)	(1.2)
Depreciation and Amortisation	(13.0)	(12.3)
Impairment charges	(20.7)	-
Release of Contingent Consideration	4.2	-
Profit Before Tax^{3,5}	13.0	15.1

¹ Figures may not cast due to rounding

² Excluding depreciation of US\$9.0 million (2010: US\$8.5 million) and amortisation of US\$4.0 million (2010: US\$3.8 million)

³ Excluding restructuring costs totaling US\$4.9 million (2010: US\$2.2 million) US\$1.0 million from operating expenses and US\$3.9 million from administrative expenses (2010: US\$1.2 million from operating expenses, US\$0.6 million from research and development and US\$0.4 million from administrative expenses)

⁴ Excluding share benefit charges of US\$2.4 million (2010: US\$2.3 million) and impairment charges of US\$20.7 million (2010: nil)

⁵ Excluding share benefit charges of US\$2.4 million (2010: US\$2.3 million)

Brian Mattingley, Chief Executive Officer, Aviad Kobrine, Chief Financial Officer, and Itai Frieberger, Chief Operating Officer, will be hosting a presentation for analysts today at 10:30 (BST) at M:Communications, 11th Floor, 1 Ropemaker Street, London, EC2Y 9AW.

The presentation will be available from the investor relations section of 888's website (<http://www.888holdingsplc.com>) this morning.

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This announcement includes statements that are, or may be deemed to be, "forward-looking statements". By their nature, forward-looking statements involve risk and uncertainty since they relate to future events and circumstances. Forward-looking statements may and often do differ materially from actual results. Any forward-looking statements in this announcement reflect 888's view with respect to future events as at the date of this announcement. Save as required by law or by the Listing Rules of the UK Listing Authority, 888 undertakes no obligation publicly to release the results of any revisions to any forward-looking statements in this announcement that may occur due to any change in its expectations or to reflect events or circumstances after the date of this announcement.

Chairman's Statement

2011 has been a year of significant change, both for 888 as a business and in the ever-shifting landscape in which we operate. Changes made to the focus of the business and ongoing improvements to our market-leading offering, have helped to increase player numbers, build revenues and produce this excellent set of results. European regulation continued apace and there are a number of exciting initiatives in the United States seeking to regulate internet poker at both a federal and a state level. Which route will be undertaken and exactly when this will happen remains unclear, but the wheels are in motion and 888 is positioned to take advantage of any and all outcomes.

There were a number of changes to the Board and the senior management team in the period under review. Gigi Levy stepped down as CEO in April and I would like to thank Gigi for the contribution he made to the business during his tenure. The Board invited Brian Mattingley, our Deputy Chairman, to step into a more hands-on role within the business to help provide more focus on key areas of performance and deliver on our immediate objectives, following the outstanding achievements of the Group and his excellent performance during this period. I am delighted that Brian Mattingley has, in March 2012, been appointed as our full time Chief Executive Officer. I look forward to continuing to work closely with him in his new role.

It was also appropriate to undertake a review of the business requirements in terms of personnel and restructure the senior management team. As part of that restructuring, we appointed Itai Frieberger as Chief Operating Officer. Itai has a wealth of experience in the online world and has spent the last seven years with 888 in various senior management roles covering the full spectrum of disciplines within our company.

After the macroeconomic shocks of the previous financial year and the business challenges that accompanied them, the operating environment for 888 improved during 2011. There were also a number of notable strategic achievements which we believe will underpin our growth in the coming years: the finding of suitability by the Nevada Gaming Control Board and the Nevada Gaming Commission in respect of our relationship with Caesars Interactive Entertainment (Caesars), the significant upgrade to our back-office systems and the expansion of our agreement with Caesars to enter the US market when regulation is enacted. In addition the launch of Poker 6 which won industry accolades fuelled tremendous growth in our poker business.

We have refocused the business and, in doing so, created a strong and sustainable base for long-term growth. By continuing our customer-centric approach and offering innovative products and services that are both exciting and relevant, we expect to continue to be successful and deliver benefit to you, our shareholders.

Financial Results

Group revenue increased significantly by 26% to US\$331 million (2010: US\$262 million) driven in the main by the B2C performance of casino and our standout poker offering, Poker 6. EBITDA* was US\$56 million (2010: US\$29 million). As at 31 December 2011 the Group had US\$82 million of cash and cash equivalents of which US\$45 million represented liabilities to customers. In February 2012 the Group prepaid £20 million of the Wink deferred consideration to reduce interest costs. This resulted in a balance of £3.8 million payable on 21 May 2012.

We will continue to review the dividend policy with a view to reinstating payment of dividends as appropriate.

B2C

As part of our strategic refocus we have concentrated on our core product groups of Casino, Poker, and Bingo. This includes focusing our attention on our B2C customers, ensuring we deliver a 'best in class' product, excellence in customer service, and a true value-for-money proposition. This compelling offering, supported by highly successful targeted marketing campaigns, has resulted in a strong trading performance across our B2C division.

Poker has had an exceptional year, and since the launch of our award-winning Poker 6 platform we have significantly outperformed the industry. New player recruitment in Poker has increased by 77% compared to last year and we now rank 4th in the global liquidity rankings.

Casino has also enjoyed a strong performance and this year we have made a significant investment in our back-office systems. In July we launched into the newly regulated Italian market and have already gained more than 5% market share. We also developed an exciting new casino product, casino 50, which was launched in February 2012.

Whilst the bingo market is maturing we continue to focus on our core strengths of product innovation and promotion initiatives.

** Excluding share benefit charges of US\$2.4 million (2010: US\$2.3 million), goodwill write-off US\$20.7 million (2010: nil) and restructuring costs of US\$4.9 million (2010: US\$2.2 million)*

Dragonfish

This year has seen a change of approach as we have worked on fewer deals concentrating on those which are substantially revenue and profit enhancing.

In March 2011 we became the first ever foreign-based internet gaming operator to come before the Nevada Gaming Control Board and the Nevada Gaming Commission when, following a year long process and public hearings, they approved the suitability of our commercial relationship with Caesars. This enabled us to continue working with Caesars, one of America's pre-eminent gaming groups, in the UK. Since the year end we have announced an extension of the Caesars agreement to cover the US. This is the first strand of our US online strategy and gives us a strong platform to develop the US and sign with further potential partners. We are amongst the first applicants for the new class of licence in Nevada as an internet gaming service provider.

In July 2011, the Italian regulated market opened for Casino following which we launched our own casino offering and the Dragonfish-powered casinos of several customers in that market.

Dragonfish continued to receive industry accolades and won two of the most prestigious awards at the eGaming Review B2B Awards: Poker software of the year and Bingo supplier of the year.

Board

At the year end one of our Independent Non-Executive Directors, Michael Constantine, retired from the Board. I would like to express on behalf of the Board and all at the Company our appreciation of Michael's contribution to 888 for over five years. We are actively seeking new Non-Executive Directors with the experience and skill-set to help the Group continue its next phase of growth.

Outlook

2012 is set to be a year of major opportunity for 888, with the opening of several newly regulated markets across Europe and the US potential. The Group intends to invest in these markets in order to establish and build market share and, whilst the impacts of regulatory changes are difficult to predict, we believe that we have now created a great platform for the future and are confident about the Group's full year prospects.

Richard Kilsby
Chairman

Chief Executive's Review¹

Introduction

We have enjoyed a highly successful year of trading driven by continuous improvements in our offering and renewed focus on our core strengths, resulting in a 26% increase in Group revenue to US\$331 million (2010: US\$262 million).

2011 was about going back to basics and I have reiterated in this statement our refocused strategy.

From a financial perspective we delivered a record performance: EBITDA² reached US\$56 million (2010: US\$29 million) with our EBITDA² margin increasing to 16.8% (2010: 10.9%). As at 31 December 2011 the Group had US\$82 million of cash and cash equivalents of which US\$45 million represented liabilities to customers. On 23 February 2012 the Group prepaid £20 million of the Wink deferred consideration to reduce interest costs. This resulted in a balance of £3.8 million payable on 21 May 2012.

As online gaming evolves, 888 continues to innovate and change with it. By providing players of all ability with a compelling offering, and promoting the offering with targeted marketing campaigns, we have grown our active B2C casino and poker customer numbers to almost half a million – an increase of 69% since Q4 2010. Further improvements are in the pipeline, and potential significant regulatory opportunities, leaving us very well positioned for the future.

Strategy

As I set out in our interim results last August, following a review of the business we reaffirmed our commitment to maximising revenues and taking the company forward. This strategy is made up of a number of key strands.

First, we will concentrate on our core product groups, which are Casino, Poker, Bingo, and to a lesser extent Sport, where we depend upon partners to operate a sportsbook in a highly competitive market. These products will be delivered via our B2C offering and through our Dragonfish to B2B clients.

Second, we will continue to focus our attention on our B2C customers, ensuring we deliver a 'best in class' product, excellence in customer service, and a real value-for-money proposition. Our back-office is a key asset of the company and truly world class, ensuring maximum returns on investment from our marketing and customer recruitment campaigns, monitoring and improving lifetime value of our customers whilst fulfilling high standards of social and corporate responsibility. Moreover this is done using world class fraud detection, player monitoring and excellent CRM practices. We will continue to develop this key asset as it is a true competitive advantage that benefits both customers and clients alike.

Third, we have appraised our Dragonfish B2B contracts and where they were suboptimal, renegotiated or terminated them. We will continue to develop a pipeline of new opportunities which will be fewer but have a greater positive impact on our revenues and profit.

Fourthly, we will work to improve margins, by maximising operational efficiencies and driving volume and where necessary cutting costs. There was some impact on the 2011 results but we have yet to see the full benefit of savings made to head count and other operational efficiencies. It is our short-term goal to return to levels of margin achieved in 2009, and then to further improve on these.

Finally, it is a clear strategic imperative that we concentrate on locally regulated markets. We view these markets in three specific categories which have individual characteristics:

- Implementational - For example, in Italy and France, where regulation has been introduced and we have already commenced trading.
- Formational – As in Spain where governments have announced regulation and are working towards a framework. Here we will decide on a trading strategy, start dialogue with local partners either for B2C or B2B tie-ups, and lobby governments in an attempt to assist in shaping the framework.
- Developmental - Where there is a strong indication that at some time in the near future, the market will open. Here we talk to local enterprise with a view to forming partnerships with whom we can jointly explore opportunities and attempt to influence the regulatory framework; currently we are focusing primarily on the USA.

¹ Brian Mattingley was appointed CEO on 27 March 2012

² Excluding share benefit charges of US\$2.4 million (2010: US\$2.3 million), goodwill write off at US\$20.7 million (2010: nil) and restructuring costs of US\$4.9 million (2010: US\$2.2 million)

We have already delivered against and realised the benefit of this renewed focus. Our focus on driving key product areas has significantly increased player sign-ups leading to significant growth in volumes. We will continue to focus on maximizing the potential of our existing core offering augmented with innovations in both product and customer interaction and service.

B2C

The B2C offering remains our core area and the bedrock of the success of the business. Performance across the offering has been excellent in 2011, with revenue up 28% to US\$284 million (2010: US\$222 million) as a result of our focused investment in order to provide the best possible customer experience, and improved and targeted marketing. We have pursued a volume-led strategy, aimed at attracting a large number of players through providing an entertaining and accessible platform on which customers enjoy playing. The strategy has led to Customer lifetime value preserved over time with retention programmes performing well, so that churn rate is lower than it has been in the past.

2011 was a phenomenal year for 888's poker business with revenue increasing 58% to US\$61 million (2010: US\$38 million). Our Poker 6 platform has transformed our poker network and we have risen from 13th to 4th in the global liquidity rankings in little over 12 months. In Q4 alone the number of active poker customers increased by 58%.

The Poker 6 network is carefully managed. We aim to attract players in to enjoy the game which has a more recreational feel with players placing smaller initial stakes. We have worked hard over the last year on the software suite which is dedicated to targeted marketing – almost targeting players individually with specific incentives and promotions, and we are now reaping the benefits of that investment.

In Casino this 'smart marketing' also worked for us, with revenues up 27% to US\$148 million (2010: US\$117 million). The success of Casino has been driven both by the highly successful marketing campaigns and significant back-office improvements. Our efforts were recognised with 888 winning Best Online Casino of the Year at the ICE Totally Gaming Awards.

As I said above a key focus for us is newly regulated markets. Our fully localised Casino helps penetration into new markets. We launched into the Italian market in July, with more than 30 games, and with the introduction of the first live casino in Italy - Live Dealer on 888. Initial trading has been encouraging and we have already achieved more than 5% market share.

We have just launched a new Casino offering, a state-of-the-art platform similar to Poker 6, with a number of new features, and we will continue to invest in more functionality, customisation and localisation of features such as payment methods.

Bingo is becoming a mature market but we continue to hold our own. We added 15 new Instant Games on our Bingo platform including a number of global brands. We will continue to invest in new features such as progressive jackpots, new games and Mini Games to keep the platform refreshed and relevant.

888sport, while relatively small, is an important part of the customer offering, particularly around significant sporting events which in 2012 will be dominated by the London Olympics and football's Euro 2012.

Dragonfish

This year we undertook a widespread appraisal of the Dragonfish business - reviewing existing contracts and evaluating the right deals to pursue. Revenue was up 16% at US\$47 million (2010: US\$40 million). As a result we also have a more profitable B2B business by successfully renegotiating and terminating suboptimal contracts.

The most significant step this year was the Nevada Gaming Control Board and the Nevada Gaming Commission voting unanimously to grant a finding of suitability of the commercial agreement between Caesars Interactive Entertainment and Dragonfish. This finding, which was the result of a rigorous and lengthy process of scrutiny, underlines the integrity, sophistication and professionalism that the Company maintains as its core tenets of its business model.

After the period ended we announced an extension of our agreement with Caesars into the US – the first strand of our US strategy. Dragonfish is now in a very strong position to explore the potential of the US market. We have a strong platform to roll out our cutting edge, turnkey solution to other potential partners as the market opens.

People

It's not just the offering that makes 888 stand out, it is our people. I am a true believer in teamwork and we have a fantastic team of people working at 888. There is no doubt we have some of the most gifted technological staff in the industry. I would like to take this opportunity to thank everyone for their hard work this year. The more I get to

know the employees, the more impressed I am with their enthusiasm and commitment to the business. It is their drive, innovation and effectiveness that has helped deliver such a successful year.

Regulation

Regulation of online gaming continued to present both opportunities and challenges to the group during 2011, and this is likely to be the case during 2012. A growing number of jurisdictions (most notably in Europe) have adopted legislation regulating the Group's business, often in widely divergent manners. While regulation in various jurisdictions has the effect of providing legal certainty, contributing to stability and bolstering the long-term value of the Group's various markets, it is also inevitably accompanied by the burden of local taxation and costly compliance requirements. The Group continues to remain actively engaged in regulatory developments worldwide and continues to seek opportunities for growth presented by regulation while facing the accompanying challenges.

Two notable regulatory developments that are likely to have a significant impact on the Group during 2012 are the possible reform of the UK online gaming regime (with the imposition of UK gaming duty on foreign operators) and the emergence of a US online poker market (initially in Nevada, where the Group continues to pioneer the developing online market). 888 is investing effort to averting or minimise the potentially adverse impact of a UK reform, taking all steps to maximise the benefit of the potential for growth presented by a regulated US online poker market.

Responsible Gaming

As a global leader in online gaming entertainment, 888 is committed to a proactive policy of corporate and social responsibility. Conducting our business responsibly is fundamental to our future success and the sustainability of our business. Our values place the community and the customer at the centre of our endeavours. We are constantly exploring new and innovative ways to create a caring, responsible gaming environment and to ensure under age, addictive or other inappropriate customers are unable to access our gaming sites. We work closely with organisations such as GamCare and Gambling Therapy to enhance the training of our customers support representatives.

Current Trading and Outlook

2011 marked a new chapter in 888's history. We have realigned the business to focus on its core strengths under a team that is steeped in online gaming. We are more than ready to take advantage of liberalisation in the industry and we are well positioned to achieve first mover advantage. We have a unique position in the US to allow the launch of a real money offering promptly in either federal or state based once regulation is finalized by gaming authorities. Our markets are changing and evolving and we are moving fast to ensure we continue to innovate and expand our horizons.

While market liberalisation offers new growth opportunities for regulated businesses such as ours it also means investment in marketing to position the brand and acquire customers. We will continue to invest in regulated markets to secure our future for the long term.

We continue to exceed our customers' expectations both in terms of offering and service. We will continue to pursue our strategy of focusing on recreational players and as well as major product enhancements during the year, such as the launch of our new Casino offering, we will focus on the continuous improvement of the customer experience at every point.

Brian Mattingley
Chief Executive

Enhanced Business review

Financial Review

Financial Summary

	Year ended 31 December 2011 ¹	Year ended 31 December 2010 ¹
	\$ million	\$ million
Revenue		
B2C		
Casino	148.0	116.9
Poker	60.6	38.4
Bingo	54.0	50.1
Emerging Offering	21.6	16.2
Total B2C	284.2	221.7
B2B	46.9	40.4
Revenue	331.1	262.1
Operating Expenses ^{2,3}	108.6	97.2
Gaming taxes and duties	7.3	1.4
Research and Development Expenses ³	29.9	21.8
Selling and Marketing Expenses	102.3	91.5
Administrative Expenses ^{3,4}	27.5	21.6
EBITDA^{3,4}	55.6	28.6
Exchange Losses and Net Finance Costs	(13.1)	(1.2)
Depreciation and Amortisation	(13.0)	(12.3)
Impairment Charges	(20.7)	-
Release of Contingent Consideration	4.2	-
Profit Before Tax^{3,5}	13.0	15.1

¹ Figures may not cast due to rounding.

² Excluding depreciation of US\$9.0 million (2010: US\$8.5 million) and amortisation of US\$4.0 million (2010: US\$3.8 million).

³ Excluding restructuring costs totaling US\$4.9 million (2010: US\$2.2 million) US\$1.0 million from operating expenses and US\$3.9 million from administrative expenses (2010: US\$1.2 million from operating expenses, US\$0.6 million from research and development and US\$0.4 million from administrative expenses).

⁴ Excluding share benefit charges of US\$2.4 million (2010: US\$2.3 million) and impairment charges of US\$20.7 million (2010: nil).

⁵ Excluding share benefit charges of US\$2.4 million (2010: US\$2.3 million).

Financial Results

General

888 delivered record financial performance in 2011: total revenue increased 26% to US\$331 million (2010: US\$262 million), EBITDA¹ increased 94% to US\$56 million (2010: \$29 million) and EBITDA¹ margin expanded to 16.8% (2010: 10.9%). Profit before tax² was US\$13 million (2010: US\$15 million) and basic earnings per share¹ was 8.7¢ (2010: 3.7¢). Net cash generated from operating activities was US\$79 million (2010: US\$16 million).

888's Financial position remains strong with cash and cash equivalents at year end at US\$82 million, out of which US\$ 45 million represented liabilities to customers. At the year end the Group still had a deferred consideration liability of US\$37 million relating to the Wink Bingo acquisition. On 23 February 2012 the Group paid ahead of contractual due date £20 million of this liability resulting in a balance of £3.8 million payable on 21 May 2012.

Geographical Segmentation

888's turnover by geography is set out in the table below. Growth was achieved in each of the geographies and UK still remains our largest market with 46% of total revenues (2010: 49%). Revenue generated in Europe excluding UK has also increased this year by 28% driven primarily by poker and casino.

Revenue by geographical market:

	Year ended 31 December	
	Revenue	
	2011	2010
	US \$ '000	
UK	153,090	127,371
Europe (excluding UK)	124,187	96,759
Americas	26,488	17,110
Rest of world	27,385	20,873
Total Revenue	331,150	262,113

Expenses

Over the last twelve months, we have continued to invest in our platforms and our offering as well as investing in newly regulated markets.

Operating expenses³, which include mainly employment costs and volume-driven expenses such as chargebacks and payment service providers' commissions, totalled US\$109 million (2010: US\$97 million) representing a lower proportion to revenue of 33% compared to 37% in 2010. Chargebacks ratio remained stable at 1.0% (2010: 1.1%) and PSP commissions ratio increased slightly to 5.9% (2010: 5.5%) as a result of the inclusion of the Mytopia business for the entire year which incurs a higher cost proportion than the core business.

Research and development expenses increased in 2011 to US\$30million (2010: US\$22 million) as we invested in our technological platform and in product adaptation to regulated markets. Nevertheless this expense remained at a stable ratio to revenue, at 9.0% (2010: 8.3%).

Gaming duties incurred during the year were US\$7 million (2010: US\$1 million), primarily in respect of the activities in Spain during the second half of the year and Italy from Q4.

Marketing expenses during the year were US\$102 million (2010: US\$92 million). This was a result of an increased number of high-profile campaigns aimed to drive record numbers of players to our new offerings. Despite the increase in marketing spend, marketing ratio reduced to 31% in 2011 compared to 35% in 2010, demonstrating enhanced marketing efficiency.

In 2011, the Group continued to focus on attracting and retaining customers and optimising the recruitment channel to cost. During the year, 888's marketing team recruited more than 330,000 new Casino and Poker first time depositors ("FTDs").

¹ Excluding share benefit charges of US\$2.4 million (2010: US\$2.3 million), goodwill impairment charges of US\$20.7 million (2010: nil) and restructuring costs of US\$4.9 million (2010: US\$2.2 million)

² Excluding share benefit charges of US\$2.4 million (2010: US\$2.3 million) and restructuring costs of US\$4.9 million (2010: US\$2.2 million)

³ Excluding depreciation of US\$9 million (2010: US\$8.5 million), amortisation of US\$4 million (2010: US\$3.8 million) and restructuring costs of US\$1.0 million (2010: US\$ 1.2 million)

Administrative expenses¹ increased to US\$28 million (2010: US\$22 million). This increase is primarily associated with professional expenses arising from regulated markets and the refocusing of the B2B business.

Impairment Review – Mytopia

Given the financial performance of Mytopia, the social games development business acquired in 2010, a prudent accounting decision was taken to fully impair the Mytopia goodwill which has resulted in a full impairment charge of US\$20.7 million.

Share Benefit Charges

Share benefit charges were US\$2.9 million (2010: US\$2.3 million). The increase was primarily a result of US\$0.5 million of accelerated share benefit charges arising on termination following the departure of the former Chief executive on 30 April 2011.

Finance Income

Given the low interest rate environment net interest income was US\$0.2 million (2010: US\$0.2 million).

Finance Expenses

Finance expenses during the year totalled US\$13.3 million (2010: US\$1.5 million). This amount comprise (a) US\$3.7 million (2010: nil) interest paid to the Wink bingo vendors in relation to the deferred consideration, (b) US\$3.7 million (2010: US\$1.1 million) a non cash charge representing the difference between the discounted present value and future nominal value of the Wink deferred consideration, (c) US\$1.6 million (2010: nil) representing fair value adjustment in respect of the open forward contract entered into in 2011 in order to hedge the Sterling denominated Wink deferred consideration following the March 2011 agreement and (d) US\$4.3 million (2010: US\$0.3 million) representing the result of closing forward contracts entered into during the year aimed to hedge costs which are not denominated in US\$ (such as ILS, euro and Sterling) and revaluation of various balance sheet assets which are not denominated in US\$.

EBITDA

EBITDA² reached a record US\$56 million (2010: US\$29 million) representing an increase of 94%. EBITDA² margin increased significantly to 16.8% from 10.9% in 2010.

Taxation

The tax charge for 2011 was US\$3.9 million (2010: US\$2.7 million) reflecting the group's efficient tax position. Out of this amount US\$0.9 million (2010: nil) was payable in respect of the new corporation tax in Gibraltar.

Earnings Per Share

Basic earnings per share was 0.6¢ in 2011 (2010: 2.3¢). Adjusted basic earnings per share excluding share benefit charges, restructuring costs, impairment charges and release of contingent consideration better reflects the underlying performance of the business and assists in providing a clearer view of the performance of the Group. Adjusted basic earnings per share was 7.4¢ in 2011 (2010: 3.6¢)

Dividend

Given our cash requirements we did not pay a dividend in 2011. However, we will continue to review the dividend policy with a view to reinstate payment of dividends as appropriate.

Cash Flow

The Group's profitability during the year was matched by strong cash generation with net cash generated from operating activities reaching US\$79 million (2010: US\$16 million). This surplus cash was used primarily to pay Wink and Mytopia earn-outs at US\$40 million and US\$6 million respectively.

¹ Excluding restructuring costs of US\$3.9 million (2010: US\$0.4 million), share benefit charges of US\$ 2.4 million (2010: US\$2.3 million) and impairment charges of US\$ 20.7 million (2010: nil)

² Excluding share benefit charges of US\$2.4 million (2010: US\$2.3 million), goodwill write off US\$20.7 million (2010: nil) and restructuring costs of US\$4.9 million (2010: US\$2.2 million)

Balance Sheet

The Group's cash position as at 31 December 2011 was US\$82 million (31 December 2010: US\$62 million). Liabilities owed to customers were US\$45 million (2010: US\$35 million). This increase reflects the natural healthy growth of the business in terms of customer numbers and revenue during 2011.

B2C

888 is a global gaming entertainment destination, with localised offerings providing players the games they want in the language they speak. The 888 gaming experience is now available in a total of 19 languages to over 150 countries.

Casino

888's casino offering is a significant growth driver for the business, and has benefited from ongoing improvements in the customer experience and successful marketing to deliver record results.

Our focus has been on player acquisition, and we have been very successful in this area. By continuing to offer the best possible online gaming experience, we aim to continue to drive record player numbers and revenues, while building brand loyalty and successfully increasing lifetime value as we go forward.

A key way to build this loyalty is by ensuring that the 888 offering remains at the forefront of the online gaming experience. To do so means continuously providing new content and innovative ways of playing the games that customers want.

The ever-growing portfolio of top notch games offered was bolstered through the addition of more than two dozen third party games to our suite of casino products. Dedicated teams were built to make integration more streamlined as we start to release more games into the market.

Optimisation of the Live platform has seen the introduction of additional tables for high rollers and VIPs, more types of games (London Roulette with UK dealers, Venetian Roulette with Italian dealers, Auto roulette) and an enhanced user interface.

A key focus continues to be newly regulated markets, and our fully localised casino helps penetration into these new markets. In August, 888 launched in the Italian market, with more than 30 games that passed certification by the Italian regulator. The introduction of Live Dealer on 888.it was the first live casino in Italy. Following increased marketing spend in Italy, 888 now enjoys market share of over 5%. In 2012, 888 will look to build on this position in Italy, while also opening in Spain, which has the potential to be a significant market, and a licence has also been applied for to offer online gaming in the smaller Danish market.

The first quarter of 2012 saw the launch of our revamped casino offering, Casino 50, which reconstructs the casino platform to provide an industry leading casino product. Utilising state-of-the-art web and design technology, the new 888casino software is simpler and faster than ever before. From easy tab-based navigation, to opening multiple games in parallel, 888casino provides a sleek, smooth transition which now includes a higher screen resolution and allows a perfect platform for crisp, vibrant graphics and clear wide & HD screen viewing. With personalisation at the heart of the new design, 888casino allows players to create the lobby of their choice and create shortcuts to their favourite games. The intuitive features of the new 888casino adapt to each individual player, allowing players to play online casino 'their way'.

In addition, 888 has also entered into the mobile gaming sector with the launch of our first Android application for 888roulette, and further mobile opportunities are in development.

The success of the 888casino platform was publicly acknowledged, with 888 winning Best Online Casino of the Year at the ICE Totally Gaming Awards.

Poker

Poker has had an exceptional year, achieving significant growth despite a declining online poker market, through effectively pursuing our strategy of focusing on recreational players. The launch of Poker 6 in June 2010 has been transformational, and we have reaped the rewards across 2011.

888's poker offering is now an accepted industry leader. With an intuitive usability that targets the casual player and innovative features that appeal to a broad demographic, the increase in number of active customers in 888poker led the industry in 2011. With 318,000 active customers in Q4, this has moved 888poker up to fourth, from thirteenth, in the public liquidity rankings.

This surge in activity has been the result of constant investment in our poker strategy to build a platform that appeals to players of all abilities. 888 has developed a diverse network in which players can enjoy the game regardless of skill level, and offers customized promotions and communications targeted for every stage of a player's journey. This leads to higher player retention and, in turn, increased lifetime value. Poker 6 is a technically sophisticated product that can manage a host of activities: matching marketing campaigns; monitoring product performance and delivering bespoke customer interfaces.

We are continually improving our poker offering, and during the year, we introduced some additional innovative features. These included PokerCam, a feature that allow players to interact via webcam while playing on the 888poker tables, and more social features, such as Team-Play and Private Games (where players can personalize their own private poker games and invite their friends to join the game).

The success of 888poker was recognised at awards ceremonies, with 888 being awarded the 2011 Poker Operator of the Year at the eGaming Review Awards, and 888poker being named Best Online Gaming Product of the Year at the ICE Totally Gaming Awards.

Bingo

It has been a challenging year for 888bingo. The market is maturing and is highly competitive. Nonetheless, we saw year on year improvement, as 888 continues to provide our customers with a first class offering, including regular promotions, attractive prizes and a host of interactive features.

Instant games remain a key revenue stream, dramatically enhancing the gaming experience, customer retention and yield. These were embellished throughout 2011 with more than a dozen new Instant Games launched on the Bingo platform. Games include brands such as 'Roland Rat', progressive jackpot games and Mini Games.

Other notable features introduced throughout the year included enhanced 'Invite a Friend' capabilities - whereby friends from Facebook, Gmail, Hotmail and social networks can be invited to join games - and Side Bets - enabling bingo players to place a bet on an event that will happen during a Bingo game.

We will continue to launch innovative new products, and look for new ways to bring new customers to the business. In partnership with Endemol, Big Brother Bingo was exclusively launched in the UK at the end of 2011 to take advantage of the high-profile Celebrity Big Brother series. The performance of this product has been very encouraging, with promotions for exclusive Big Brother prizes including behind-the-scenes access, task props & VIP passes to eviction nights attracting new customer numbers.

Sport

888sports is a small percentage of our total business, but is nevertheless important for our customers, particularly at the time of significant sporting events, and we will continue to invest in this offering in order to drive more revenue and improve margins.

In 2011, the focus was on retaining those high value customers that have been acquired during recent high-profile events, and in promoting Casino and Poker to our 888sports customers via the ability to share wallet across 888's core platforms.

Following prominent and successful marketing campaigns, the business grew year on year - this is especially pleasing as 2010 saw the impact of the FIFA World Cup. With both the London Olympics and football's Euro 2012 taking place in the summer and offering significant opportunity for growth, marketing activities are being prepared to take advantage of these major events.

Marketing and Promotions

The 888 offering provides something for players of all abilities and requirements, and our marketing suite identifies the best way to target people with the offering that will be of most interest to them.

A significant area of investment in 2011 was in back-office systems. 888's marketing suite is now amongst the best in the business, and allows us to better target offers and promotions. This helped boost conversion ratios and allowed marketing campaigns to be more focused. In turn, campaigns such as Free Spin and Millionaire were highly successful.

888poker is a different type of destination, and the communication of this has been integral to the surge in numbers over 2011. Our marketing campaigns reflect the focus of our offering, with our Poker advertising targeted at the casual player and emphasising the enjoyment factor. Shane Warne continues to successfully front our campaigns in several parts of the world, and has helped us to begin to build on an Ambassador-led marketing strategy as we enter into new markets. Using prominent sports players and celebrities rather than professional poker players as

the face of our campaigns presents our brand to a larger audience and reinforces 888poker as a recreational, fun destination. Our advertisement campaigns and marketing in 2012 will continue to build on the positioning slogan, 'We Play Different', as we continue to offer players an entertaining poker experience that is unique from our competitors' and enjoyable for all players.

In 2011, 888casino executed a very successful marketing campaign across several markets, focusing on 365 spins to win a million dollar jackpot. To continue to capitalise on this success, campaigns in 2012 will continue to build strong brand awareness of 888casino as a leading casino where players can win big and have fun. With the support of innovative, personalised software and a continually improving customer communication protocol, customer acquisition from these campaigns should see optimum conversion with increased player values and retention.

Consistent with our strategy, we continued to invest heavily in marketing. Marketing spend in 2011 was larger in absolute terms than in 2010, but equalled only 31% of revenue compared to 35% in 2010. As our marketing improves and becomes more intelligent and targeted, we are achieving dollar for dollar growth in terms of marketing spend year on year.

Customer Relationship Management

Strong customer relationships are the bedrock of our success. Whilst eye-catching promotions help to drive customer acquisition, customer retention comes from engendering loyalty through building bonds with players. This leads to people playing more games, more often, for more time.

888's ongoing commitment to localisation strengthens relationships worldwide through speaking to people in their language and culture, while the market-leading usage of social features and interactivity with players strengthens brand loyalty.

As the back-office suite improves, and allows all players to use a personalised product, with promotions targeted to their requirements, churn rate has reduced across 2011.

Search Engine Optimisation ('SEO')

The specialist Search and Web Optimisation Technologies ('SWOT') team continue to give 888's websites prominence on worldwide search engines, maximising the impact of the product offering. Successful use of SWOT has helped to drive players to 888 brands, helping customer acquisition and ongoing growth.

2012 Focus

We will continue to focus on our core strengths, and build on the excellent results achieved in 2011. Following the success of Poker 6, our new Casino offering has significant potential, and we will invest across our product line in order to provide players with cutting-edge games and innovative ways in which to play them.

Targeted marketing campaigns will support our products, with the aim of attracting and retaining customers, growing lifetime value and reducing churn rate. We will also explore innovative avenues and ways to play on 888 gaming platforms in order to drive growth.



Dragonfish

Dragonfish, 888's standalone business to business arm, continues to offer clients a best in class Total Gaming Services solution. The quality of the offering, coupled with a renewed focus, has given us a strong position in which to enter newly regulating jurisdictions.

In 2011, Dragonfish successfully launched CasinoFlex in Italy in conjunction with some of the most popular established online Italian brands, and focused on future regulated US markets by entering discussions with major US partners. In January 2012, Dragonfish extended its deal with Caesars Interactive Entertainment to include the US.

Dragonfish further undertook a widespread appraisal of all its contracts, and looked to renegotiate or terminate deals that did not have the desired effect on the bottom line. The pipeline of new opportunities continues to develop towards deals that are more enhancing to revenue and profit.

The strength of the offering, coupled with increased marketing efforts by our partners, helped drive revenue up 16% to a record US\$47 million.

We were delighted to see Dragonfish's position as a leading B2B provider recognised through the awarding of two of the most prestigious awards at the eGaming Review 2011 B2B Awards – Poker Software of the Year and Bingo Supplier of the Year.

The Total Gaming Services Offering

New entrants to the online gaming market require diverse gaming content delivered over a high performing technology platform, operational expertise and, above all, knowledge of how to leverage their assets and target the gaming consumer.

The state-of-the-art Poker 6 platform provides a contemporary look and feel for poker clients, with enhanced usability, functionality and playability on the tables. The platform is a proven success, and has been a driving force behind the exceptional performance of 888's global poker offering.

The casino offering continues to reflect 888's 14 years of experience as a leading online casino operator. This enables Dragonfish to provide a suite of games that helps its partners' casino brands appeal to beginners and experts alike through the provision of a vast range of games, a user-friendly casino lobby with intuitive buttons for communicating promotions, tutorials, 24/7 customer help, wins and bonuses. In 2011 the successful launch of the CasinoFlex modular product specifically designed for regulated markets, allowed partners to choose to operate their own back-office under their own licence.

The bingo platform achieved an important milestone in 2011, with the launch of the BingoFlex Modular Platform providing full integration with partners' back-office systems. The new platform enables the offering of individual platform components to potential partners, and thus significantly strengthens the Bingo sales proposition by creating a broader spectrum of potential partners.

Each of our products is tailored for individual markets, and can take advantage of multi-platform compatibility.

With the launch of our exciting new Casino 50 platform, the product offering to clients will remain at the forefront of the online gaming experience.

Our proprietary back-office services continue to be a core part of our proposition. Our partners enjoy the benefits of our industry-leading payment solutions and optimisation services, Fraud and Risk Management, Business Analytics, CRM services and multi-lingual proactive and reactive customer operations.

Regulated Markets

Choosing the right partner is critical for success in regulated markets, and Dragonfish offers flexible best-of-breed solutions that have been rigorously tested to meet the regulatory requirements across the international jurisdictions, such as Italy and Spain. We have developed a methodology which drives our solutions for regulated markets: tracking the new laws through drafting and publication, adapting, testing and certifying our products and operations in parallel to the first new licences being issued. We also have the strength and depth to spread our focus across multiple jurisdictions so we maintain our leading position in all the largest markets as the regulations take effect. This means that Dragonfish licencees are first in line to receive their eGaming licences in newly regulated territories.

We have also adapted our products to meet the new tax requirements of each market. We provide integral tax-compliant acquisition and retention tools, bonuses and cross-selling that maximise cost-effectiveness for our partners while increasing the Lifetime Values of their players.

Our track record is second to none and we have already clocked up invaluable experience launching hundreds of brands on our regulated gaming solutions.

888 is well placed to continue harnessing the many opportunities that the changing regulatory environment will bring. Our reputation as a trusted, leading international operator was demonstrated in March 2011, with the Nevada Gaming Control Board and the Nevada Gaming Commission suitability finding for the commercial relationship between Caesars Interactive Entertainment and Dragonfish. This, the first deal ever approved between a state-licensed gaming company and a foreign-based Internet gaming operator, was a significant development enabling us to continue to work with Caesars to offer support for its UK product.

The partnership with Caesars already covered a real-money World Series of Poker Casino offering to the UK market and a World Series of Poker Free Play Poker site in the United States.

More significantly, in January 2012, the partnership was extended into the United States. The first strand of 888's US strategy, the agreement will allow the launch of a real money offering as soon as either Federal or state based regulation is finalised, upon licencing by gaming authorities.

Dragonfish is in pole position for the US market, and we have a strong platform on which to roll out our cutting-edge, turnkey solutions to other potential partners as the market opens.

Another notable market in which Dragonfish is well positioned is Italy. Following certification of 888 products by the Amministrazione Autonoma dei Monopoli di Stato (AAMS), the Italian regulatory authority, we launched our Casino offering into the Italian market in August. The Dragonfish Italian casino offering includes both Download and No-Download (Instant Play) clients, with a customized and enhanced proposition presenting the Italian player with the most compelling and engaging gaming experience in the regulated market.

2012 Focus

Dragonfish will continue to focus on leveraging new opportunities in significant newly regulating markets, focusing on utilising the compelling offering to sign agreements that will enhance revenue and profit.

Technological Infrastructure

888's success is built on the strength of its technological infrastructure, which provides the platform for the cutting-edge innovation for which we are renowned. The cutting-edge offering provided for our players, including the ground-breaking Poker 6, is all a result of the behind-the-scenes expertise that is at the heart of 888.

The right technology for regulated markets

Having the right technology is crucial to operating in newly regulated markets, as the platform must be tailored to conform to all specific requirements. During H2 2011, 888 launched a regulated Casino offering in Italy, both for B2C (888.it) and for B2B partners. In Q4, our platform was adjusted to support Gibraltar AML regulation for the .com brands.

The ability to quickly make changes to our platform, while also ensuring that the customer experience remains at the cutting edge of online gaming, stands us in good stead to gain market share as new geographies are regulated. Based on the changes we made to our gaming systems to comply with Italian regulations, in 2012 we will adjust the platform in order to launch in Spain.

Subject to successful conclusion of the licencing process in Nevada, tentatively expected in 2012, we are perfectly positioned with the required infrastructure and platform changes in order to launch.

The right technology for our customers

The record numbers of concurrent users on 888 sites in 2011 demonstrate the robustness of our platform. Preparations to serve these incoming users began in Q2, and over the course of 2011 the data center was redesigned to improve the availability of the network infrastructure in the server room and allow for faster installations of new hardware. The networking hardware was also reconfigured to improve availability and network stability. This was done smoothly and ensured that all IT operating parameters were maintained.

The backup software and hardware were also upgraded to support the increasing size of data, reduce backup window time frame and improve data retention. The updated systems and procedures were awarded level 1 PCI Certification in the yearly audit performed by the Qualified Security Assessors.

The successful updating of systems meant all service level agreement performance parameters were met and surpassed.

Other notable improvements to 888's back-office systems in 2011 included:

- **Unified Offering Infrastructure:** During 2011, B2C casino, poker and sport brands were transferred to the new unified offering infrastructure, which includes support of the new bonus structure.

In addition, the "My Account" site was launched, which includes tabs on bonuses and personal details to ensure that all customers are able to easily manage their 888 accounts. More content will be added to this site during 2012.

- **Gaming Infrastructure Improvements:** In order to support the growing load on our gaming infrastructure caused by the significant increase in player numbers, steps were taken in order to improve performance and enable a more robust and stable platform.
- **Registration Process Improvements:** Optimising the usability of the registration process can be a major boost to 888, through maximizing the number of deposits made from visitors to the site. In 2011, we introduced an enhanced registration form with, amongst other things, an improved look and feel, more meaningful validations, and new password length requirements for increased security.
- **Real Time Segmentation (Queue Manager Improvements):** During 2011, we added new abilities to the Queue Manager tool including the ability to retrieve population data based on data mining models, and the ability to perform automatic actions (in addition to manual actions that are already supported).
- **Affiliate System Improvements:** A number of improvements to 888's internal Affiliates System were introduced during 2011, supporting the growing number of affiliates, enhancing reporting capabilities and optimising the billing process.

Unique Casino Games

An essential part of 888's strategy is its focus on the player experience. To fulfil this goal a new robust gaming platform – the Generic Gaming Platform or GGP was introduced.

888's GGP offers a simple way to develop or integrate Casino games. It is built over existing infrastructure and back-office systems and contains a number of games engines: core Casino games (like Blackjack and Roulette) as well as unique Video Slots. 888 plans to utilise this platform to offer unique games in parallel to the already well-established games integration channel via the 888 Integration Platform.

During 2011, a new French Roulette and American Roulette was launched over the GGP and we are planning to add a number of additional games and unique features during 2012.

GGP supports Flash games, and also new technologies such as HTML5. This enables 888Casino to deliver and integrate games easily on mobile platforms.

ePayments

The comprehensive Total Payment Services offering includes payment processing tailored for local markets, fully managed fraud detection and prevention services, and customer support.

The ability for players to deposit and withdraw in their local currency via their preferred payment option is key to 888's personalisation and localisation of the products offered. In 2011 we introduced new currencies and seven new payment options in key countries.

Fraud prevention was also bolstered through the addition of major tools including 3D Secure Code (offered as Verified by Visa and MasterCard SecureCode to Visa and MasterCard card users respectively), and the payment platform was amended to be compliant with those jurisdictions in which a new regulatory regime was introduced.

Introducing new features and capabilities in the payment platform helped us to better convert customers in the cashier. These capabilities allow much shorter login time to the system from all over the world, and much more effective and reliable ways to process payments.

Customer Support and Service

Customer Relationship Management

Strong customer relationships are the bedrock of 888's success, and the Group remains committed to its goal of providing the best customer support and service in the global online gaming industry.

First class customer support is offered for each of the Group's brands and White Labels via telephone, e-mail and chat to customers around the world, in 10 different languages. 888's ongoing commitment to localisation strengthens relationships worldwide, through speaking to people in their language and cultural context, while the market-leading usage of social features and interactivity with players strengthens brand loyalty.

The launch of 888.it, a tailor-made product for the newly regulated Italian market, in August 2011, marked a milestone for 888. To support this venture, a wholly new customer support team was recruited and trained to, for the first time, handle all aspects of the operation; successfully establishing a range of new processes and procedures.

In 2011, 888's support teams, on average, converted 20% of all incoming phone calls and 10% of relevant incoming chats to deposits; maintaining this convenient service to players and continuing to benefit the business. We see the forthcoming expansion of live telephone and chat deposit capabilities to our Bingo customers as exciting new developments. This feature was launched as a pilot project at the end of 2011 and is expected to boost revenues and open new marketing opportunities.

The Telemarketing and Proactive Chat Department continued to deliver excellent performance as measured by the deposits generated by interaction with customers. The Department has increased its performance for the third successive year in all three key metrics - efficiency, productivity and revenue generated.

The implementation of an easy-to-use newly customised layout, and improved design of the Online Web Self-Service tool, along with the continual evaluation and refinement of content, resulted in an increased usage of this tool by customers. Improvements helped to reduce customer issues while increasing people's ability to find answers to their queries themselves, enabling 888 to further reduce its operational expenditure, improve agent efficiency and more effectively manage its resources.

As a result of well-received amendments to our offering, the overall volume of queries coming in to our support centres decreased by 6% in 2011. This result is especially pleasing as it was achieved despite the significant increase in active casino and poker customers and despite a 20% increase in B2B Bingo contact volumes.

Total contact volumes handled at our Support Centres – All B2C/B2B Brands and Languages:

2010 contacts handled via phone, e-mail and chat:	960,095
2011 contacts handled via phone, e-mail and chat:	900,741

The main Gibraltar contact centre focuses on providing support for 888's principal markets in Europe, Asia Pacific and Latin America, while the Antiguan contact centre focuses on supporting the English speaking markets in Europe, Australia, Asia Pacific and Canada. The fully established contact centre in Romania is providing mainly telemarketing and proactive chat activities in several languages for 888 and Dragonfish.

Support teams in all operational locations aim to close the majority of issues during the first contact, as exemplified in the Service Level Achievement reached in 2011. Throughout the year, we further improved the handling of customer interactions by prioritising inbound queries according to customer statuses and specified business priorities.

Customer Satisfaction

888 monitors customer satisfaction at key points throughout their lifetime cycle in order to assist stakeholders in the group to identify and understand habits and expectations of loyal players, as well as to design service initiatives and ongoing refresher training based on the results.

In 2011, the customary annual study conducted to benchmark 888's service level within its primary markets included English, German and Spanish speaking casino and poker players, as well as English speaking sport customers. 888 is pleased that, for the third year running, respondents from our main language markets gave their highest rating to the level of professionalism of our support representatives.

The survey also sought insight into customer awareness and usage of the Online Self-Help facility available to English, German and Spanish customers. In 2011, 80% of respondents were aware of the Online Web Self-Service tool vs. 73% in 2010. 71% of customers who are aware of the tool reported using it.

Review forums, customer surveys and feedback analysis assisted in the continual evaluation and refinement of the Online Help content. In 2012, we plan to enhance the visual representations of supplied information to reduce textual materials, adapting to customer needs and increasing user satisfaction.

Regulation and General Regulatory Developments

The regulatory framework governing online gaming in different countries around the world remains as dynamic and rapidly evolving as ever. While some jurisdictions have moved to curtail the activities of online gaming sites, many others (including many European jurisdictions and even some US states) are currently contemplating liberalisation and regulation of the industry, and several have already taken this route. The Group remains committed to monitoring closely and addressing regulatory changes as they occur, and to fostering, so far as possible, the trend towards liberalisation and regulation of online gaming throughout the world.

EU

As the hopes for pan-European harmonization of online gaming laws waned during 2011, a growing number of EU Member States have introduced (or are in the process of introducing) local legislation governing the offering of online gaming. Several EU Member States are either contemplating or have already put in place, a liberalised (or partially liberalised) gaming regime: The UK, France, Italy, Spain, Denmark, Belgium, Estonia, Greece, Hungary, Romania and others have already adopted a regulatory regime governing online gaming. Other EU Member States, including Ireland, Germany, Bulgaria, the Netherlands, and Sweden are also considering (or are already in the process of) revising their gaming laws, possibly to include liberalization of the online gaming market. The proliferation of varying regulatory regimes throughout the EU Internal Market has inevitably resulted in increased regulatory constraints and compliance challenges impacting the Group's European business.

In March 2011, the European Commission published a long-awaited Green Paper on online gaming. The Green Paper launched a public consultation between EU Member States, EU institutions and other stakeholders regarding the legal and technical challenges arising from the activities of both "lawful" and "unlawful" online gambling operations. In this context, rather than strongly advocating harmonization of gaming laws across the EU Internal Market, the Paper notes the existence of the two regulatory models adopted by EU Member States - a liberalized licencing model and the restrictive national monopoly model. As with the declaration adopted in late 2010 by the EU Council of Ministers, the Green Paper recognizes that the online gaming market has not been the subject of pan-European regulation, indicating that this state of affairs is unlikely to change in the immediate future. The Green Paper highlights the need to identify ways in which cooperation between national regulatory authorities at EU level will assist Member States in achieving more effectively the objectives of their gambling policy, in line with the principles of the EU internal market. 888 responded to the Green Paper consultation process by filing a detailed position paper supporting pan-European regulation of the industry.

The end of 2011 saw France evaluating the online gaming regime put in place by a 2010 law (which introduced a licencing regime for online poker, sports betting and horserace wagering). It remains unclear whether and to what extent this evaluation will lead to amendments of the French legal regime, possibly including further liberalization of the market, or changes to the tax structure.

Also in 2011, Denmark launched the regulatory regime established under a 2010 law (after a state aid claim against this regime was rejected by the European Commission). Under this new regime, the 888 group has been issued an online gaming licence by the Danish Gambling Commission.

Spain also adopted a new regulatory and licencing regime for online gambling during 2011, and issued a time-restricted call for applications by the end of the year. Following national general elections, issuance of licences has been postponed to 2012, and an overall review of the 2011 regime by the new administration cannot be ruled out. Until such time, the group's Spanish business continues to be governed by an interim regime put in place by the 2011 law.

Italy, where the Group holds an online gambling concession, introduced new legislation in 2011, expanding the scope of licencable online activities and significantly easing access to the market by EU-based operators. The group has updated its Italian licence concession in accordance with this new legislation. Further expansion of the licencable online activities may occur during 2012.

The regulation of online gaming in Germany continued to be characterized by legal ambiguity and chaos during 2011 and early 2012. The Inter-State Gambling Treaty, struck down in 2010 by the European Court of Justice, was scheduled to expire at the end of 2011. At that time, 15 of the German federal states (Lander), not including the state of Schleswig-Holstein, extended the treaty by six months to allow for the adoption of a new treaty (expected to introduce a very limited online sports-betting regime, allowing for no more than 20 licences).

The new treaty awaits the approval of the individual states' parliaments. In a letter issued by the European Commission in March 2012, the Commission expressed serious doubts over the compliance of the new draft treaty with EU law, echoing criticism voiced regarding the previous treaties on earlier drafts of the new treaty. The EC indicated that it stood to the Lander to demonstrate how the proposed treaty could be considered compliant with EU law (or risk having it struck down as the previous treaty had been). This position by the EC is likely to further contribute to the legal uncertainty already characterizing the German gaming market.

In contrast, the German state of Schleswig-Holstein introduced its own regulatory and licencing regime for online casino games (including poker, but excluding roulette, baccarat and blackjack) and online betting (lottery games remain under state monopoly). Despite granting certain advantages to the incumbent land-based gambling operators, the Schleswig-Holstein regime was generally approved by the European Commission. The licencing process for online gaming operators was scheduled to begin in March 2012, but has been delayed, as secondary legislation specifying the technical requirements is yet to be enacted.

There remains a certain degree of legal uncertainty surrounding the ability of Schleswig-Holstein licencees to accept players from throughout Germany. While the Schleswig-Holstein law does not prohibit the acceptance of players nation-wide, and while strong legal arguments are available to support the right of Schleswig-Holstein

licences to operate in such a manner, the issue is likely to be the subject of legal debate once the Schleswig-Holstein regime has been fully launched.

As part of a broader austerity package, and with the undisguised aim of generating significant tax revenue from online gaming, Greece adopted a regulatory and licencing regime governing online gaming regime during 2011. The new Greek legislation (which has not yet been fully launched) has come under severe criticism due to its incompatibility with EU law. This is primarily due to the fact that applicants for an online gaming licence must be established in Greece, locate their gaming infrastructure and store data in Greece and conduct payment processing in Greece. The law also subjects applicants to retroactive taxation.

Belgium's licencing regime for online gaming activities became effective on February 2012 after a year of "temporary test permits" granted to selected operators. Belgian licences may only be issued to terrestrial operators already operating a casino or gaming arcade. In addition, servers containing (as a minimum) the data pertaining to Belgian operations, are to be located in Belgium. For these reasons, the European Commission has declared the Belgian regulatory regime to be incompatible with EU law.

Hungary also amended its gambling law during 2011 introducing a limited regulatory regime governing online gaming. The implementation of these new regulatory regimes awaits publication of secondary legislation, and is anticipated during 2012.

In August 2011, Romania adopted secondary legislation necessary to implement the online gaming portion of its 2010 gaming legislation. Though formally in force, the regime established by this legislation has not yet been practically implemented by the Romanian authorities and it is presently unclear when such implementation will commence.

UK

Following a review of the current online gaming licencing regime, the DCMS is considering reforming the existing regime. In March 2012, the Chancellor of the Exchequer formally announced a consultation process aimed at introducing legislation (in the form of a new Finance Act) which would subject all online operators accepting UK customers to UK gaming duty (presently at 15% of Gross Gaming Revenue). The announcement explicitly refers to December 2014 as the target date for implementation of the aforementioned reform, which would require a change of primary legislation.

USA

Late in 2011, the US Department of Justice released a memorandum reversing the Department's long-standing position regarding the scope of the Wire Act. The Department of Justice concluded that the Wire Act does not apply to non-sports betting, and hence does not prohibit the intra-state sale online of lottery tickets by licenced state lotteries. Several legislative initiatives at state level seek to regulate intra-state online gaming (including in New Jersey, Iowa, Connecticut, Massachusetts, California, Ohio and Washington D.C.).

These initiatives come after the State of Nevada implemented, during 2011, a new regime governing intra-state interactive poker. The newly introduced Nevada regime allows licenced terrestrial gaming operators to offer online poker to patrons in Nevada, including through partnership with online operators in possession of an appropriate service provider licence. The Group has already applied for a licence as an interactive gaming service provider and manufacturer in Nevada. In so doing, the Group continues to pioneer the Nevada online gaming market.

Early in 2012, the New Jersey state legislature began debating a bill seeking to allow the offering of online gaming by Atlantic City licencees, possibly through partnerships with established online operators.

Similar bills are being debated by the state legislatures of California, Iowa, Mississippi and Hawaii. Under the California bill, terrestrial licencees and Indian tribes could obtain an online poker licence, pursuant to which they could operate through partnership with online operators (subject to the condition that such operators did not accept wagers from the United States after 31 December 2006). Similar bills have been proposed in Iowa and Mississippi. In Hawaii a proposed bill seeks to establish a single state online gaming operator (monopoly).

Other US jurisdictions, including Illinois, Maryland and New York, are considering launching online platforms for the sale of lottery products. These developments could all present potential business opportunities for the Group, which could act as service provider to licencees and lottery corporations in the various states.

Federal legislation governing online gaming (most likely online poker, initially) remains a possibility in 2012. Late 2011 saw consensus between Senator Harry Reid (longtime supporter of online poker legislation) and Senator Jon Kyl (who has traditionally objected to federal legislation condoning online poker). This newly formed alliance greatly increases the odds in favor of federal legislation regulating online gaming, though the complex political landscape resulting from the 2012 general election may impact the likelihood of such development during 2012.

Corporate Social Responsibility

As a global leader in online gaming entertainment, 888 is committed to a proactive policy of corporate and social responsibility that reflects the high professional and ethical standards we have set for ourselves.

Conducting our business responsibly is fundamental to the future success of 888 and the sustainability of the business. At 888, we understand that our responsible approach is both the correct way to do business and one that enhances our credibility, thereby supporting the development of the business.

Our philosophy

We aim to contribute to the global community in which we operate:

- We sponsor and participate in activities in the neighbourhoods in which we live and work.
- We create collaborative and rewarding work environments where new ideas can flourish and employees can grow.
- We encourage responsible gaming practices to avoid the dangers of problem gambling, and we have taken rigorous steps at all our online sites to prevent under-age gambling.

Our values

At 888 we place the community and the customer at the centre of all our endeavours. We are constantly looking at new and innovative ways to create a caring, responsible gaming environment and to ensure that minors are unable to access our games. For any customers who suspect they have a problem, our Director of Responsible Gaming and our well-trained staff provide individual assistance that is considerate, supportive, and helpful.

Community

Community Involvement

888 is committed to supporting both the various local communities in which it operates and also the broader global community. Our community investment program includes cash donations and long-standing community involvement in our key areas across the world.

In addition, 888 employees are actively involved with the local community. In the first part of the year, employees in the Gibraltar office volunteered to raise money for the Alzheimers' foundation.

Our employees in the Israel office also continue with their long-standing relationship with the national Derech Haetgar charity which focuses on enhancing the education of disadvantaged teenagers. The program allows volunteers to assist with homework and studies by combining fun and educational indoor and outdoor activities and workshops according to various public festivals.

As has been the case for the past few years, employees in Israel also joined the "Day of Good Will" - national volunteering organization and for the 3rd year, 888 employees dedicate this day to host Sudanese kids for a day of fun activities.

Charity and our customers

The annual 888 Charity Weekend was hosted on 9-12 December 2011. For the fifth consecutive year, 888.com donated 8% of the house profits during the entire weekend from across the business - casino, poker, bingo & sport. The charity donations were shared between three well know and deserving charities, Breast Cancer Care U.K., Bliss and Sport Relief.

As well as this general promotion, during the 888 Charity Weekend individual brands allowed players to contribute more through promotions like 888casino's Santastic video slot, 888poker's Charity Challenge & 888ladies £200 Good Cause.

Environment

As an online business 888's activities have a relatively small impact on the environment, but 888 continues to develop its commitment to environmental issues:

- Green IT: Recycling IT: all 888's redundant IT equipment is now recycled. Virtualisation (VDI project): More than 120 stations were transformed from a PC to the VDI system, enabling us to use less hardware.
- Energy consumption: Alongside these projects we continuously monitor our energy consumption to help us ensure we are being as energy efficient as possible.
- Recycling: We recycle as much as possible. Paper, bottles and cans are collected from all of our sites.

- Water: We use only ecological detergents in our offices and use water saving devices in all our locations.
- Travel: To minimise the impact of travel on the environment we encourage employees to either cycle to work and, in certain locations, provide buses for commuters. We also continue to invest in state-of-the-art technology to help meetings occur remotely.

Responsible gaming

We are constantly creating new and innovative ways to create a caring, responsible gaming environment and to ensure children are unable to access our gaming sites.

888 aims to provide responsible adults with the best online gaming entertainment experience. However, we acknowledge that gaming poses a potential danger to a small minority of people. We continuously train our staff in how to provide a safe gaming experience. Our training program incorporates methods and techniques to help our employees to recognise and take appropriate actions if they identify compulsive or underage gambling.

Protecting Customers

- As a responsible, regulated gaming company, we comply with both the GamCare and the eCOGRA guidelines.
- GamCare is the leading authority on the provision of counseling, advice and practical help in addressing the social impact of gambling in the UK.
- eCOGRA ensures that approved online casinos are properly and transparently monitored to provide player protection.
- Our site has links to helping agencies and we have placed many safeguards for those who need help with controlling their gaming.
- Self-assessment test: For gamblers who are worried about their gambling habits and want to know more about the signs of compulsive gambling,
- Controlling deposit limits: Should clients feel the need to they can control their gambling by self limiting the amounts they deposit per day, per week or per month.
- Self exclusion: A customer can request to be self excluded for a chosen period, due to different concerns. Based on internal studies we decided to increase time periods available for clients to cool off. Clients can choose from six different exclusion periods from one day to six months. During this period, 888 blocks the account and no promotional e-mails are sent to the client.

In 2011 888's Director of CSR and Responsible Gaming worked with Gambling Therapy and GamCare, aiming to enhance the training of our customer support representatives in order to help them identify potential compulsive players' profiles and the most effective way that they can be helped before a problem arises.

Protecting minors

Under-age gambling on our sites is prohibited and 888 takes the prevention of under-age gaming extremely seriously.

Our offering is not designed to attract minors. We make every effort to prevent minors from playing on our sites and use sophisticated verification systems as well as a third party verification supplier to identify and track minors if they log into our software. The verification process today consists of two verification systems, both 192.com and URU.

We train our staff to be highly sensitive to the possibility of under-age gambling and make sure we suspend any account suspected to be an underage account.

888responsible

Since 2007 a dedicated website, www.888responsible.com, has been available, providing information regarding all aspects of responsible gaming. The site is available in English, French, Spanish and German.

This year we upgraded and expanded the site so that the content reflects our holistic CSR approach, while the updated platform allows for greater flexibility in content changes as well as supporting more languages.

United Nations Global Compact (UNGC)

During 2009 888 entered into in the United Nations Global Compact.

The UNGC is the largest global initiative to promote the social responsibility of businesses. It is a voluntary initiative, which brings together thousands of businesses across more than 100 sectors worldwide. Representatives

confirm their commitment to the UNGC in order to promote ten universally accepted principles in the field of human rights, workplace standards and anti-corruption.

We believe that the activities of 888 are in line with the principles of the Global Compact, and it therefore seemed appropriate that we should publicly declare our support and ensure greater exposure to a wider public. By joining the Un Global Compact we are now in line with an established and globally recognised policy framework of environmental, social, and governance policies and practices.

Employee Care at 888

888 values its employees' opinions and conducts regular pulse checks to gain an understanding regarding employees' working experiences. This year we conducted an online staff opinion survey which included some of the following topics: 'me as an employee', 'my manager', 'my team' and '888 management'. The survey findings proved high levels of employee satisfaction and provided excellent guidelines for ongoing efforts.

Learning and Development

At 888 we invest in our employees' professional development with regular and ongoing training and development programs. This year a number of new learning opportunities were devised and offered to our employees; including an internal learning program: 'Up2Date with 888', teaching about our various products and offerings; a new training initiative for our sales team in Antigua which included new online marketing methods as well as a number of leadership developmental courses including a new program for General Managers in our Israel office and a supervisory skills program for Team Leaders in our Gibraltar office.

All 888 employees receive feedback about their work performance during the annual talking@888 process. This year we incorporated an interactive feedback scheme, which allowed managers to collect feedback online from different stakeholders across the business, including employee's colleagues and indirect managers. A company-wide grading scale was utilized to allocate scores and feedback sessions were then carried out.

Risk Report

The Group operates in a dynamic business environment. In addition to the day-to-day commercial risks faced by most enterprises, the online gaming industry faces particular challenges in respect of Regulatory risk, Reputational risk, Information Technology risk and Taxation risk, each of which is detailed below.

Regulatory risk

The regulatory framework of online gaming is dynamic and complex. Change in the regulatory regime in a specific jurisdiction could have a material adverse effect on business volume and financial performance in that jurisdiction. A detailed regulatory review is set out in the Regulation and General Regulatory Developments section above. The Group manages its regulatory risk by routinely consulting with legal advisors in the jurisdictions where its services are offered or are accessible, where necessary obtaining formal legal opinions from local counsel. Furthermore, the Group obtains frequent and routine updates regarding changes in the law that may be applicable to its operations, working with local counsel to assess the impact of any changes on its operations. The Group constantly adapts and moderates its services to comply with legal and regulatory requirements. Finally, the Group blocks players from certain 'blocked jurisdictions' at various stages and using various technological methods.

Reputational risk

Under-age and problem gaming are inherent risks associated with the online gaming industry. The Group devotes considerable resources to putting in place prevention measures coupled with strict internal procedures designed to prevent under-aged players from accessing its real money sites. In addition, the Group promotes a safe and responsible gaming environment to its customers supplemented by its corporate culture. The Group has a dedicated Director of CSR & Responsible Gaming tasked with the responsibility of implementing such policies. Further details about the Group's responsible gaming initiatives are set out in previous pages.

Information Technology risks

As a leading online business, the Group's IT systems are critical to its operation. The Group is reliant on the performance of these systems.

Cutting-edge technologies and procedures are implemented throughout the Group's technology operations and designed to protect its networks from malicious attacks and other such risks. These measures include traffic filtering, anti-DDoS (Distributed Denial of Service) devices and Anti-Virus protection from leading vendors. Physical and logical network segmentation is also used to isolate and protect the Group's networks and restrict malicious activities. The IT environment is audited by independent auditors, such as PCI DSS security audit and eCOGRA audit. These audits ensure proper IT procedures and a high level of security. In order to ensure systems are

protected properly and effectively, external security scans and assessments are carried out in a timely manner. The Group has a redundant storage solution to ensure storage availability and performance. All critical data is replicated to another storage device for disaster recovery purposes and all data is stored off-site on a daily basis.

In order to minimise dependence on telecommunication service providers, the Group invests in network infrastructure redundancies whilst regularly reviewing its service providers. The Group has two internet service providers in Gibraltar in order to minimise reliance on one provider.

As a part of its monitoring system, the Group deploys set user experience tests which measure performance from different locations around the world. Network-related performance issues are addressed by rerouting traffic using different routes or providers. 888 operates a 24/7 Network Operations Centre (NOC). The NOC's role is to conduct real time monitoring of production activities using state-of-the-art systems. These systems are designed to identify and provide alerts regarding problems related to systems, key business indicators and issues surrounding customer usability experience.

The IT environment tracks changes, incidents and SLA KPIs in order to ensure that client experience is consistent and well managed. As part of these procedures, capacity planning takes place and infrastructure is built accordingly. System-wide availability and business-level availability is measured and logged in the IT information systems.

Taxation risk

The Group aims to ensure that each legal entity within the Group is a tax resident of the jurisdiction in which it is incorporated and has no taxable presence in any other jurisdiction. While the Group's customers are located worldwide, certain jurisdictions may seek to tax the group's activity which could have a material adverse effect on the amount of tax payable by the Group or on customers' behaviour. Furthermore, jurisdictions in which online gambling is regulated may impose gaming duties on licenced operators. The Group actively monitors taxation risk in the relevant jurisdictions and takes such steps as it considers necessary to minimize such risks.

Corporate Governance

888 Holdings plc is admitted to the UK Official List and its shares are traded on the London Stock Exchange under a Premium Listing. As such, despite being incorporated in Gibraltar, the UK Corporate Governance Code (the 'Code') applies to the Company.

Statement of Compliance

The Board remained committed to high standards of corporate governance which it considers to be central to the effective management of the business and to maintaining the confidence of investors. During the year, the Board considers that it and the Group have complied with all relevant provisions of the UK Corporate Governance Code.

Business Model

A discussion of the basis on which the company generates and preserves value over the longer term, together with its strategy for delivering its objectives, is set out in the Chairman's Statement and Deputy Chairman's review above.

The Board

The Directors consider it essential that the Company should be both led and controlled by an effective Board.

Composition

During 2011, the Board consisted of seven Directors as follows: three independent Non-executive Directors, two Non-independent Non-executive Directors, a Non-executive Chairman, and one Executive Director, being the Chief Financial Officer. One of the former Executive Directors, Gigi Levy, stepped down from his role as Chief Executive Officer as of 30 April 2011 but has remained on the Board as a Non-executive Director. From that date Brian Mattingley took on certain executive duties. Brian Mattingley was appointed full-time Chief Executive Officer in March 2012. Following such appointment, the composition of the various committees on which Mr Mattingley was a member is under review. In addition, one of the independent Non-executive Directors, Michael Constantine, stepped down from the Board as of December 31, 2011.

The biographical details of all of the Directors are given in the annual report. The Company is actively seeking new Non-executive Directors with the experience and skill-set to help the Group continue its next phase of growth.

Strategic approach

The Board focuses upon the Group's long-term objectives, strategic and policy issues and formally and transparently considers the management of key risks facing the Group, as well as determining the nature and extent of significant risks it will take in achieving its strategic objectives, maintaining sound risk management and internal control systems and reviewing annually the effectiveness of the company's risk management and internal control systems. The Board is responsible for acquisitions and divestments, major capital expenditure projects and considering Group budgets and dividend policy. The Board also determines key appointments. The Board receives regular updates on shareholders' views. The Board has established a calendar of business. This covers the financial calendar, strategic planning, annual budgets and performance self-assessments, as well as the conduct of standing business. The calendar forms the basis for effective integration of business activities as between the Board and its principal Committees, which individually consider their own operating frameworks against the Board's business programme. The Board intends to establish a formal process for the annual evaluation of its performance, its committees and individual Directors. The evaluation process is to cover a range of issues such as Board processes, Board roles and responsibilities, Board agendas and committee processes. Whilst no evaluation was carried out in 2011, the Board intends to carry out such an evaluation in 2012. The Board plans to meet six times a year. During 2011, the Board met five times. Set out below are details of the Directors' attendance record at Board and Committee meetings in 2011.

Total number of meetings held during the year ended December 2011 and the number of meetings attended by each Director

	Board	Audit committee	Remuneration committee	Nominations committee
Total held in year				
Richard Kilsby	4	n/a	n/a	1
Gigi Levy	2	n/a	n/a	n/a
Aviad Kobrine	5	n/a	n/a	n/a
John Anderson	4	n/a	n/a	n/a
Michael Constantine*	5	3	3	1
Brian Mattingley	5	3	3	1
Amos Pickel	4	3	3	n/a

* Michael Constantine stepped down from the Board with effect from December 31, 2011.

The Chairman has responsibility for ensuring that agendas for Board meetings are set in advance. Board papers are issued to Directors sufficiently in advance of meetings to facilitate both informed debate and timely decisions.

Non-executive review and performance appraisal

The Chairman holds meetings at least once per year with the Non-executive Directors without the Executive Directors being present. Led by the Senior Independent Director, the Non-executive Directors meet once per year without the Chairman present in order to appraise the performance of the Chairman. The Directors have wide-ranging business experience, and no individual, or group of individuals, dominates the Board's decision making.

The Board considers that Brian Mattingley and Amos Pickel satisfy the independence criteria of the Code in 2011. The Board is satisfied that, upon his appointment as Chairman, Richard Kilsby met the independence criteria of the Code. The other significant commitments of the Chairman during 2011 are detailed in his biography. It is noted that Mr Kilsby resigned as a Non-executive Director of Tullett Prebon plc in 2011. The Board considers that Mr Kilsby's other commitments do not interfere with the discharge of his responsibilities to the Group and is satisfied that he makes sufficient time available to serve the Company effectively.

Reserved powers and delegation

A schedule of matters reserved to the Board has been adopted and its content is reviewed to align it with operational needs and the Board's preference to monitor and, where appropriate, approve matters of substance to the Group as a whole. Senior executives have given written undertakings to ensure compliance within their business operations with the Board's formal schedule of matters reserved to it for decision or approval.

Division of responsibilities

The responsibilities of the Chairman are clearly and formally defined, with the Chairman being responsible for the effective operation of the Board as a whole, leadership of the Board in achieving a culture of constructive challenge by non-executives, regularly agreeing and reviewing each director's training and development needs, and supporting key external relationships.

Other issues

All Directors have access to the advice and services of the Company Secretary and the Company's nominated advisers, who are responsible for ensuring that Board procedures are followed. Directors are able to seek independent professional advice, if required, at the Company's expense provided that they have first notified their intention to do so.

The appointment or removal of the Company Secretary is a matter for the Board as a whole.

The Board accepts that there should be a formal, rigorous and transparent procedure for the induction of new Directors, which has been formulated with the guidance of the Nominations Committee.

The opportunity to hold office as non-executive Directors of other companies enables Directors of 888 to broaden their experience and knowledge, which will benefit the Company. Executive Directors may be allowed to accept non-executive appointments with the Board's prior permission, so long as these are not likely to lead to any conflict of interest. Executive Directors may be required to account for fees received from such other companies.

The Company has arranged insurance cover in respect of legal actions against its Directors. To the extent permitted by Gibraltar law, the Company also indemnifies the Directors. Neither the insurance nor the indemnity provides cover where a Director has acted fraudulently or dishonestly.

Re-election of Directors

All Directors are subject to reappointment by shareholders on an annual basis.

Audit Committee

The Audit Committee comprised three independent Non-executive Directors: Brian Mattingley (Chair until 30 April 2011), Michael Constantine (Chair from 30 April 2011) and Amos Pickel. The Board is satisfied that both Brian Mattingley and Michael Constantine have sufficient recent and relevant financial experience to Chair the Audit Committee. Michael Constantine stepped down from the Board as of 31 December 2011, and the Audit Committee is presently considering appointment of a new Chair. Normally, by invitation, the Chairman, Chief Executive Officer and Chief Financial Officer and, where appropriate, representatives of the Company's external auditors attend the Audit Committee meetings.

The Audit Committee's terms of reference are available on request to the Company Secretary and are included on the Company's website, www.888holdingsplc.com.

In summary, the Audit Committee assists the Board in discharging its responsibilities with regard to financial reporting, external and internal audits and controls, including reviewing 888's annual financial statements, considering the scope of annual audit and the extent of non-audit work undertaken by external auditors, approving 888's internal audit programme, advising on the appointment of external auditors and reviewing the effectiveness of internal control systems.

Nominations Committee

During the year, the Nominations Committee comprised three independent Non-executive Directors: Michael Constantine (Chair), Brian Mattingley and Amos Pickel, as well as Richard Kilsby, Chairman. The Nominations Committee met in 2011 to discuss, amongst other matters, the departure of Gigi Levy from his position as Chief Executive Officer of the Company and the recruitment of a new Chief Executive Officer of the Company. Brian Mattingley was appointed Chief Executive Officer in March 2012. Michael Constantine stepped down from the

Board as of 31 December 2011, and the Nominations Committee is presently considering appointment of a new Chair.

The Nominations Committee assists the Board in discharging its responsibilities relating to the composition of the Board. The Nominations Committee is responsible for reviewing, from time to time, the structure of the Board, determining succession plans for the Chairman and Chief Executive Officer, and identifying and recommending suitable candidates for appointment as Directors. The Nominations Committee's terms of reference are available on request to the Company Secretary and are included on the Company's website, www.888holdingsplc.com.

Remuneration Committee

During the year the Company's Remuneration Committee comprised three independent Non-executive Directors: Brian Mattingley (Chair until 30 April 2011), Michael Constantine and Amos Pickel (Chair from 30 April 2011). Michael Constantine stepped down from the Board as of 31 December 2011.

The Board has overall responsibility for determining the framework of executive remuneration and its cost. It is required to take account of any recommendation made by the Remuneration Committee in determining the remuneration, benefits and employment packages of the Executive Directors and senior management and the fees of the Chairman.

The Directors' Remuneration Report, which outlines the Remuneration Committee's work and details of Directors' remuneration, is part of the 2011 annual report. The Remuneration Committee's terms of reference are available on request to the Company Secretary and are included on the Company's website, www.888holdingsplc.com.

Risk Management and Internal Control

The Directors acknowledge that they are responsible for the Company's system of internal control, for setting policy on internal control and risk management, and for reviewing the effectiveness of internal control and risk management. It is management's role to implement Board policies on risk and control, including reporting. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable, and not absolute, assurance against material misstatement or loss.

The Board has delegated responsibility to the Audit Committee to review the appropriateness and adequacy of systems of internal control and risk management in relation to the financial reporting process on an ongoing basis and to make recommendations to the Board. The Company has an Internal Auditor who reports to the Audit Committee. The Company's Internal Auditor resigned with effect from 14 December 2011, and the Company is in the process of appointing a suitable replacement.

888's payment risk management team, based in Gibraltar, has developed stringent payment risk management and fraud control procedures. The team makes use of external and internal systems to manage the payment risks. Detailed procedures exist throughout the Company's operations and compliance is monitored by operational management and the Internal Auditor.

The Directors periodically review the effectiveness of the Group's systems of internal control and risk management. The review considers individual risk control responsibilities, reporting lines and qualitative assessments of residual risks.

Relations with Shareholders and Key Financial Audiences

The Company maintains an active and regular dialogue with principal and institutional shareholders and sell-side analysts through a planned programme of investor relations and financial PR activity. The outcome of these meetings is reported to the Board. The programme includes formal presentations of full year and interim results, quarterly release of Interim Management Statements, analysts' conference calls and periodic road shows.

Shareholders are free to contact any non-Executive director to address any issues where contact with the Chairman and Chief Financial Officer is inappropriate or where such contact has failed to resolve the issue.

All shareholders are welcome to attend the 2012 Annual General Meeting (scheduled to be held on 16 May 2012) and private investors are encouraged to take advantage of the opportunity given to ask questions. The Chairmen (or nominated members) of the Audit, Remuneration and Nominations Committees will attend the meeting and be available to answer questions.

Compliance with Statutory Provisions

As the Company is registered in Gibraltar, it is subject to compliance with Gibraltar statutory requirements. The main legislation relevant to companies in Gibraltar is the Gibraltar Companies Act, which is based on the UK Companies Act 1929. The Company is in full compliance with the Gibraltar Companies Act.

Going Concern

After careful review of the Group's budget for 2012, its medium-term plans, liquid resources and all relevant matters, the Directors are confident that the Company and the Group have adequate financial resources to continue in operational existence for the foreseeable future. They have therefore continued to adopt the going concern basis in preparing the financial statements.

The principal risks and uncertainties faced by the Group are disclosed in the Risk Report above.

Corporate Social Responsibility Statement

The Group's Chief Executive Officer is the Director responsible for monitoring corporate social responsibility within 888. The Board receives periodic reports on the Group's activities in this area from the Chief Executive Officer. Further details are set out in the Corporate Social Responsibility report.

Diversity Policy

Diversity is important to us as we believe that only through access to the most diverse pool of talent will we recruit and retain the most talented individuals to serve our customers. Presently, women comprise approximately 30% of the Group's senior management, and we actively seek to recruit and advance women into our top management.

Responsibility Statement of the Directors

The Directors confirm, in relation to the 2011 Annual Report and Accounts, that to the best of their knowledge:

The financial statements, prepared in accordance with the International Financial Reporting Standards as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and

The "Enhanced Business Review" includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole and that the "Risk Report" includes a description of the principal risks and uncertainties that the Group faces.

Consolidated Income Statement

For the year ended 31 December 2011

	Note	Year ended 31 December	
		2011	2010
		US \$ '000	
Revenue	3	331,150	262,113
Operating expenses		122,634	110,696
Gaming taxes and duties		7,319	1,449
Research and development expenses		29,908	22,356
Selling and marketing expenses		102,262	91,501
Administrative expenses (including goodwill impairment of \$20.7 million 2010: nil)	4	54,441	24,301
Operating profit before impairment charges, restructuring costs and share benefit charges		42,582	16,338
Impairment charges		20,673	-
Restructuring costs		4,949	2,219
Share benefit charges		2,374	2,309
Operating profit	5	14,586	11,810
Finance income		233	197
Finance expenses	7	(13,281)	(1,462)
Release of contingent consideration	21	4,225	-
Share of post-tax profit of equity accounted joint ventures	14	84	19
Profit before tax before impairment charges, release of contingent consideration, restructuring costs and share benefit charges		29,618	15,092
Impairment charges	12	20,673	-
Release of contingent consideration	12	(4,225)	-
Restructuring costs		4,949	2,219
Share benefit charges	24	2,374	2,309
Profit before tax		5,847	10,564
Taxation	8	3,912	2,701
Profit after tax for the year attributable to equity holders of the parent		1,935	7,863

	Note	Year ended 31 December	
		2011	2010
		US \$ '000	
Earnings per share	9		
Basic		0.6¢	2.3¢
Diluted		0.6¢	2.3¢

The notes below form part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

	31 December	
	2011	2010
	US \$ '000	
Profit for the year	1,935	7,863
Actuarial losses on defined benefit pension plan	(443)	(366)
Total comprehensive income for the year attributable to equity holders of the parent	1,492	7,497

The notes below form part of these financial statements.

Consolidated Balance Sheet

At 31 December 2011

	Note	31 December	
		2011	2010
		US \$ '000	
Assets			
Non-current assets			
Intangible assets	12	141,900	162,291
Property, plant and equipment	13	17,059	21,547
Investment in equity accounted joint venture	14	1,243	1,297
Available for sale investment	15	175	175
Deferred taxes	16	435	586
		160,812	185,896
Current assets			
Cash and cash equivalents	17	81,852	61,520
Trade and other receivables	18	26,468	24,344
		108,320	85,864
Total assets		269,132	271,760
Equity and liabilities			
Equity attributable to equity holders of the parent			
Share capital	19	3,163	3,145
Share premium		65	65
Capital Redemption Reserve		24	24
Retained earnings		118,067	113,716
Total equity attributable to equity holders of the parent		121,319	116,950
Liabilities			
Current liabilities			
Trade and other payables	20	65,462	37,814
Customer deposits	22	44,954	34,725
Contingent and deferred consideration	21	37,397	78,033
		147,813	150,572
Non-current liabilities			
Contingent and deferred consideration	21	-	4,238
Total liabilities		147,813	154,810
Total equity and liabilities		269,132	271,760

The notes below form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

	Share capital	Share premium	Capital Redemption Reserve	Retained earnings	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Balance at 1 January 2010	3,152	65	-	117,883	121,100
Dividend paid	-	-	-	(10,491)	(10,491)
Share buy-back	(24)	-	24	(3,465)	(3,465)
Share benefit charges	-	-	-	2,309	2,309
Issue of shares	17	-	-	(17)	-
Total comprehensive income for the year	-	-	-	7,497	7,497
Balance at 1 January 2011	3,145	65	24	113,716	116,950
Share benefit charges	-	-	-	2,374	2,374
Share benefit charges (included within restructuring costs)	-	-	-	503	503
Issue of shares	18	-	-	(18)	-
Total comprehensive income for the year	-	-	-	1,492	1,492
Balance at 31 December 2011	3,163	65	24	118,067	121,319

The following describes the nature and purpose of each reserve within equity.

Share capital — represents the nominal value of shares allotted, called-up and fully paid for.

Share premium — represents the amount subscribed for share capital in excess of nominal value.

Capital redemption reserve — represents amounts transferred from the share capital reserve following the buy-back and cancellation of equity shares.

Retained earnings — represents the cumulative net gains and losses recognized in the consolidated statement of comprehensive income.

The notes below form part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	Year ended 31 December		Year ended 31 December	
	2011	2011	2010	2010
US \$ '000				
Cash flows from operating activities:				
Profit before income tax	5,847	-	10,564	-
Adjustments for:				
Impairment charges	20,673	-	-	-
Depreciation	9,039	-	8,480	-
Amortization	3,998	-	3,796	-
Interest received	(221)	-	(197)	-
Interest expense	7,411	-	481	-
Foreign exchange differences on deferred consideration	1,739	-	660	-
Share of post- tax profit of equity accounted joint venture	(84)	-	(19)	-
Release of contingent consideration	(4,225)	-	-	-
Share benefit charges	2,877	-	2,309	-
	47,054	-	26,074	-
(Increase) decrease in trade receivables	(4,865)		1,050	-
Decrease (increase) in other accounts receivables	2,741		(3,393)	-
Decrease (increase) in trade payables	23,128		(1,060)	-
Increase (decrease) in customer deposits	10,229		(2,845)	-
Increase in other accounts payables	4,794		48	-
Cash generated from operations	83,081		19,874	
Income tax paid	(4,341)		(3,659)	-
Net cash generated from operating activities		78,740		16,215
Cash flows from investing activities				
Acquisition of assets comprising the Mytopia social games development studio (see Note 21)	(6,000)		(12,320)	-
Consideration paid for the online Wink bingo business (See note 21)	(40,080)		-	-
Purchase of property, plant and equipment	(4,575)		(8,610)	-
Investment in equity accounted joint ventures	-		(1,131)	-
Available-for-sale investments	-		(175)	-
Interest received	221		197	-
Acquisition of intangible assets	(201)		(341)	-
Internally generated intangible assets	(4,079)		(5,870)	-
Net cash used in investing activities		(54,714)		(28,250)
Cash flows from financing activities				
Interest paid	(3,694)		-	-
Share buy-back	-		(3,465)	-
Dividends paid	-		(10,491)	-
Net cash used in financing activities		(3,694)		(13,956)
Net increase (decrease) in cash and cash equivalents		20,332		(25,991)
Cash and cash equivalents at the beginning of the year		61,520		87,511
Cash and cash equivalents at the end of the year		81,852		61,520

The notes below form part of these financial statements.

1 General information

The financial information does not constitute the Group's statutory accounts for the year ended 31 December 2011 or the year ended 31 December 2010, but is derived from those accounts.

Statutory accounts for the year ended 31 December 2010 have been delivered to the Registrar of Companies in Gibraltar together with a report under section 10 of the Gibraltar Companies (Accounts) Act 1999. The audit report for 2010, without qualifying the opinion therein, drew attention to a contingent liability connected to a regulatory matter. Statutory accounts for the year ended 31 December 2011 will be filed with Companies House Gibraltar following the Company's Annual General Meeting. The auditors have reported on those accounts and their report was unqualified and did not contain statements under section 10(2) of the Gibraltar Companies (Accounts) Act 1999 or section 182(1) (a) of the Gibraltar Companies Act

Company description and activities

888 Holdings Public Limited Company (the 'Company') and its subsidiaries (together the 'Group') was founded in 1997 and originally operated as a holding company domiciled in the British Virgin Islands. On 12 January 2000, the Company was continued in Antigua and Barbuda as a corporation under the International Business Corporation Act 1982 with registered number 12512. On 17 December 2003, the Company redomiciled in Gibraltar with the Company number 90099. On 4 October 2005, the Company listed on the London Stock Exchange.

The Group is the owner of innovative proprietary software solutions providing a range of virtual online gaming services over the internet including Casino, Poker, Bingo, Sport and games to end users and also provides these services through its business to business independent unit Dragonfish to business partners. In addition, the Group provides payment services, customer support and online advertising.

Definitions

In these financial statements:

The Company	888 Holdings Public Limited Company.
The Group	888 Holdings Public Limited Company and its subsidiaries.
Subsidiaries	Companies over which the Company has control (as defined in International Accounting Standard 27 'Consolidated and Separate Financial Statements' and whose accounts are consolidated with those of the Company).
Related parties	As defined in International Accounting Standard 24 - 'Related Party Disclosures'.

2 Significant accounting policies

The significant accounting policies applied in the preparation of the financial statements are as follows:

Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards, including International Accounting Standards ('IAS') and Interpretations, adopted by the International Accounting Standards Board ('IASB') and endorsed for use by companies listed on an EU regulated market.

The significant accounting policies applied in the financial statements of the Group in the prior years are applied consistently in these financial statements.

The financial statements are presented in thousands of US dollars (US\$'000) because that is the currency the Group primarily operates in.

The financial statements continue to be prepared on a going concern basis as explained in the Corporate Governance Report herein.

The consolidated financial statements comply with the Gibraltar Companies (Accounts) Act 1999, the Gibraltar Companies (Consolidated Accounts) Act 1999 and the Gibraltar Companies Act.

2 Significant accounting policies (Cont.)

The following standards and interpretations, issued by the IASB or the International Financial Reporting Interpretations Committee (IFRIC), are effective from 1 January 2011 (current financial year) and have been adopted by the Group with no significant impact on its consolidated results or financial position.

Revised IAS 24 - Related Party Disclosures (effective for accounting periods beginning on or after 1 January 2011).

Amendments to IFRIC 14 (IAS 19) – Limit on a Defined Benefit Asset Minimum Funding Requirements and their Interaction (effective for accounting periods beginning on or after 1 January 2011).

Improvements to IFRSs. This annual improvement project clarifies the requirements of IFRS's and eliminate inconsistencies within and between standards. The relevant changes included amendments to IFRS3-Business Combinations, IFRS7- Financial Instruments: Disclosures, and IAS 1-Presentation of financial statements.

The following standards and interpretations issued by the IASB or IFRIC have not been adopted by the Group as they were not effective for the year 2011. The Group is currently assessing the impact of these standards and interpretations will have on the presentation of, and recognition in, its consolidated results in future periods.

Amendments to IAS 1 – Presentation of items of Other Comprehensive Income (effective for accounting periods beginning on or after 1 July 2012). This amendment has not yet been endorsed for use in the EU.

Amendments to IAS 12 - Deferred Tax: Recovery of Underlying Assets (effective for accounting periods beginning on or after 1 January 2012). This amendment has not yet been endorsed for use in the EU.

Amendments to IAS 19 – Employee Benefits (effective for accounting periods beginning on or after 1 January 2013). This amendment has not yet been endorsed for use in the EU.

Amendments to IAS 28 – Investments in Associates and Joint Ventures (effective for accounting periods beginning on or after 1 January 2013). This amendment has not yet been endorsed for use in the EU.

Amendments to IAS 32 - Offsetting Financial Assets and Financial Liabilities (effective for accounting periods beginning on or after 1 January 2014). This amendment has not yet been endorsed for use in the EU.

IFRS 10 - Consolidated Financial Statements (effective for accounting periods beginning on or after 1 January 2013). IFRS 10 has not yet been endorsed for use in the EU. It will supersede the consolidation requirements of IAS 27 Consolidated and separate financial statements, and SIC-12 Consolidation- Special Purpose Entities.

IFRS 9 - Financial Instruments (effective for accounting periods beginning on or after 1 January 2015). IFRS 9 has not yet been endorsed for use in the EU.

IFRS 11 - Joint Arrangements (effective for accounting periods beginning on or after 1 January 2013). IFRS 11 has not yet been endorsed for use in the EU. It will supersede IAS 31 Interests in Joint Ventures and SIC-13- Jointly Controlled entities- Non-monetary Contributions by Ventures.

IFRS 12 - Disclosure of Interests in Other Entities (effective for accounting periods beginning on or after 1 January 2013). IFRS 12 has not yet been endorsed for use in the EU.

IFRS 13-Fair Value Measurement (effective for accounting periods beginning on or after 1 January 2013). IFRS 13 has not yet been endorsed for use in the EU.

The preparation of consolidated financial statements under IFRS requires the Group to make estimates and judgments that affect the application of policies and reported amounts. Estimates and judgments are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

2 Significant accounting policies (Cont.)

Included in this note are accounting policies which cover areas that the Directors consider require estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year. These policies together with references to the related notes to the financial statements can be found below:

	<u>Note</u>
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Presentation of accounts

Following a review of the financial statements, the following amendments have been made to the consolidated statement of income. In light of the increased regulated markets in which the Group operates, the directors believe it helpful to separately disclose those gaming duties and taxes not directly related to profit. Accordingly, these amounts have been separately disclosed on the face of the consolidated Income Statement under the heading "gaming taxes and duties", and the comparatives amended accordingly. Foreign exchange gains and losses arising on foreign currency denominated assets and liabilities, and settlement of forward foreign exchange contracts are now included in finance income and finance charges as they relate to financing decisions made by the Group. Previously they were included in administrative expenses. The comparative figures, whilst immaterial, have been amended accordingly.

A comparative prior year balance sheet for 31 December 2009 has not been presented as the new presentation has no effect on the reported profit or loss, nor on net assets

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. The subsidiaries are companies controlled by 888 Holdings Public Limited Company. Control exists where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Subsidiaries are consolidated from the date the parent gained control until such time as control ceases.

The financial statements of the subsidiaries are included in the consolidated financial statements using the purchase method of accounting. On the date of the acquisition, the assets and liabilities of a subsidiary are measured at their fair values and any excess of the fair value of the consideration over the fair values of the identifiable net assets acquired is recognised as goodwill.

Inter-company transactions and balances are eliminated on consolidation.

The financial statements of subsidiaries are prepared for the same reporting period as the Parent Company and using consistent accounting policies.

Revenue

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is recognised in the accounting periods in which the transactions occurred.

Revenue consists of revenue from online gaming and revenue generated from processing customers' cross currency deposits and withdrawals. It comprises:

2 Significant accounting policies (Cont.)

Casino and Bingo

Winnings which are represented by the differences between the amounts of bets placed by customers less amounts won by customers.

Poker

Ring games: Rake, which is the commission charged from each winning hand played.

Tournaments: Entry fees charged for participation in Poker tournaments are recognised when the tournament has concluded.

Emerging Offerings

Revenue from Emerging Offerings mainly comprise winnings from Sportsbook activity and revenue from social games

Casino and Bingo winnings, and revenues from the Poker business and Emerging Offerings are stated after deduction of certain bonuses granted to customers.

B2B

In the case of white label activity, revenue is the net commission charged.

Foreign currency

Monetary assets and liabilities denominated in non-US dollar currencies are translated into US dollar equivalents using year-end spot foreign exchange rates. Non-monetary assets and liabilities are translated using exchange rates prevailing at the dates of the transactions. Exchange rate differences on foreign currency transactions are included in financial income or financial expenses as appropriate.

The results and financial position of all Group entities that have a functional currency different from US dollars are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet; and
- (ii) income and expenses for each income statement are translated at an average exchange rate (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions).

Taxation

The tax expense represents tax payable for the year based on currently applicable tax rates.

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the balance sheet differs from its tax base. It is accounted for using the balance sheet liability method. Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilised. Such assets and liabilities are not recognised if the temporary differences arise from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the deferred tax liabilities/assets are settled/recovered.

Intangible assets

Acquisitions

Identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date. The identified intangibles are amortized over the useful economic life of the assets. This has ranged between three months to four years for acquisitions to date. The exception is acquisitions of trade names, which have an indefinite useful economic life and therefore an annual impairment test is conducted.

2 Significant accounting policies (Cont.)

Intangible assets are reviewed annually for evidence of impairment. Any impairment in carrying value is charged to the consolidated income statement.

Internally generated intangible assets

Expenditure incurred on development activities is capitalised only when the expenditure will lead to new or substantially improved products or processes, the products or processes are technically and commercially feasible and the Group has sufficient resources to complete development. All other development expenditure is expensed. Subsequent expenditure on capitalised intangible assets is capitalised only where it clearly increases the economic benefits to be derived from the asset to which it relates. The Group estimates the useful life of these assets as between 3 and 5 years, except for certain licence costs which are considered to have indefinite useful life and are reviewed annually for evidence of impairment.

Goodwill

Goodwill represents the excess of the cost of a business combination over the interest in the fair value of the identifiable assets, liabilities and contingent liabilities acquired. Cost comprises the fair value of any assets transferred, liabilities assumed and equity instruments issued, plus, for acquisitions completed prior to 1 January 2010, any direct costs associated with the acquisition.

Goodwill is capitalised as an intangible asset with any impairment in carrying value being charged to the consolidated income statement. Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess is credited in full to the consolidated income statement on the acquisition.

For business combinations completed prior to 1 January 2010 changes in the estimated value of contingent consideration post acquisition are treated as an adjustment to cost and therefore change the carrying value of goodwill. For business combinations completed after that date changes in the fair value of the contingent consideration are charged or credited to the income statement. In addition, for those business combinations completed after 1 January 2010, the direct costs of acquisition are treated immediately as an expense.

Property, plant and equipment

Property, plant and equipment is stated at historic cost less accumulated depreciation. Assets are assessed at each balance sheet date for indications of impairment.

Depreciation is calculated using the straight-line method, at annual rates estimated to write off the cost of the assets less their estimated residual values over their expected useful lives. The annual depreciation rates are as follows:

IT equipment	33%
Office furniture and equipment	7-15%
Motor vehicles	15%
Leasehold improvements	Over the shorter of the term of the lease or useful lives

Impairment of non-financial assets

Impairment tests on goodwill and other intangible assets with indefinite useful economic lives are undertaken annually on 31 December, and where applicable an impairment loss is recognised immediately in the income statement. Other non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to sell), the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash generating unit (i.e. the lowest Group of assets in which the asset belongs for which there are separately identifiable cash flows).

2 Significant accounting policies (Cont.)

Financial instruments

The Group does not hold or issue derivative financial instruments for trading purposes.

Investment in equity accounted joint ventures

Jointly controlled entities (JCE) are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions.

JCEs are accounted for using the equity method (equity accounted investees) and are recognized initially at cost. The Group's share of post-acquisition profits and losses is recognised in the consolidated income statement, except that losses in excess of the Group's investment in the JCEs are not recognised unless there is an obligation to make good those losses.

Profits and losses arising on transactions between the Group and its JCEs are recognised only to the extent of unrelated investors' interests in the JCE. The investor's share in the JCEs profits and losses resulting from these transactions is eliminated against the carrying value of the JCEs.

Any premium paid for a JCE above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the JCE. Where there is objective evidence that the investment in a JCE has been impaired the carrying amount of the investment is tested for impairment in the same way as other non-financial assets.

Trade receivables

Trade receivables are recognised at fair value and carried at amortised cost and principally comprise amounts due from credit card companies and from e-payment companies. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when there is objective evidence that the full amount may not be collected.

Derivative financial instruments

The Group enters into contracts for derivative financial instruments such as forward currency contracts to hedge risks associated with foreign exchange rates. Such derivative financial instruments are measured at fair value under IAS 39 and comprise level 2 fair value measurement instrument and carried in the statement of financial position as assets when the fair value is positive and as liabilities when the fair value is negative. Any gains or losses arising from changes in the fair values of derivatives are recorded immediately in the consolidated income statement.

A fair value measurement hierarchy is based on the inputs to valuation techniques used to measure fair value to increase consistency and comparability. The inputs are categorised into three levels, with the highest priority given to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority given to unobservable inputs. Level 2 inputs are inputs other than quoted prices included within level 1 that are either directly or indirectly observable for the asset or liability.

Cash and cash equivalents

Cash comprises cash in hand and balances with banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash. They include short-term deposits originally purchased with maturities of three months or less.

Equity

Equity issued by the Company is recorded as the proceeds received, net of direct issue costs.

Trade and other payables

Trade and other payables are recognised at fair value and carried at amortised cost.

2 Significant accounting policies (Cont.)

Liabilities to customers

Liabilities to customers comprises the amounts that are credited to customers' bankroll (the Group's electronic 'wallet'), including provision for bonuses granted by the Group, less management fees and charges applied to customer accounts, along with full provision for jackpots. These amounts are repayable on demand in accordance with the applicable terms and conditions.

Available-for-sale financial assets

Available-for-sale financial assets comprise non-derivative financial assets not included in any of the above financial asset categories and comprise principally the Group's investments in entities not qualifying as joint ventures or subsidiaries. They are carried at fair value with changes in fair value recognised directly in a separate component of equity. Where there is a significant decline in the fair value of an available-for-sale financial asset the full amount of the impairment, including any amount previously charged to equity, is recognised in the income statement. On disposal of an available-for-sale asset any balance within equity is transferred to the income statement.

Chargebacks

The cost of chargebacks is included in operating expenses.

Leases

Leases are classified as finance leases wherever the terms of the lease transfer substantially all the risks and rewards of ownership to the Group. All other leases are classified as operating leases and rentals payable are charged to income on a straight-line basis over the term of the lease.

Provisions

Provisions are recognised when the Group has a present or constructive obligation as a result of a past event from which it is probable that it will result in an outflow of economic benefits that can be reasonably estimated.

Segment information

Segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker has been identified as the management team comprising the Chief Executive Officer and the Chief Financial Officer. These segments are:

- B2C (Business to Customer) Casino, Poker, Bingo and Emerging Offering which mainly comprises 888's Sportsbook, Live dealer offering and games, Mytopia social games; and
- B2B (Business to Business) which offers Total Gaming Services under the Dragonfish trading brand. Dragonfish offers to its business partners use of technology, software, operations, E-payments and advances marketing services, through the provision of offline/ online marketing, management of affiliates, SEO, CRM and business analytics.

Dividends

Dividends are recognised when they become legally payable. In the case of interim dividends this is when paid. In the case of final dividends, this is when approved by the shareholders at the Annual General Meeting.

Share-based payments

Where the Company grants its employees or contractors shares, nil priced options or market value options, the fair value at the date of grant is charged to the income statement over the vesting period. Non-market performance conditions are taken into account by adjusting the number of instruments expected to vest at each

balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of instruments that eventually vest.

2 Significant accounting policies (Cont.)

Severance pay schemes

Severance scheme surpluses and deficits are measured at:

- the fair value of plan assets at the reporting date; less
- plan liabilities calculated using the projected unit credit method discounted to its present value using yields available for the appropriate government bonds that have maturity dates appropriately to the terms of the liabilities; plus
- unrecognised past service costs.

Any difference between the expected return on assets and that actually achieved, and any changes in liabilities over the year due to changes in assumptions or experience within the scheme, are recognised in other comprehensive income in the period in which they arise.

Financial guarantee contracts

Where the Group enters into financial guarantee contracts the Group considers these to be insurance contracts and accounts for them as such. The Group treats the guarantee as a contingent liability until such time as it becomes probable that the Group will be required to make payments under the guarantee.

3 Segment information

Business Segments

	Year Ended 31 December, 2011						Consolidated
	B2C			Emerging offering	Total B2C	B2B	
	Casino	Poker	Bingo				
							US \$ '000
Revenue	148,034	60,620	53,957	21,592	284,203	46,947	331,150
Result							
Segment result before impairments					151,973	27,782	179,755
Impairments					(20,673)	-	(20,673)
Segment result					131,300	27,782	159,082
Unallocated corporate expenses ¹							144,496
Operating profit							14,586
Financial expenses, net							(13,048)
Release of contingent consideration							4,225
Share of post-tax profit of equity accounted joint ventures							84
Tax expense							(3,912)
Profit for the year							1,935
Assets							
Unallocated corporate assets							269,132
Total assets							269,132
Liabilities							
Segment Liabilities					39,062	5,888	44,950
Unallocated corporate liabilities							102,863
Total liabilities							147,813

¹⁾ Including share benefit charges of US\$2,374,000 and restructuring costs of US\$4,949,000.

3 Segment information (Cont.)

	Year ended 31 December, 2010						Consolidated
	B2C				Total B2C	B2B	
	Casino	Poker	Bingo	Emerging offering			
US \$ '000							
Revenue	116,922	38,407	50,140	16,206	221,675	40,438	262,113
Result							
Segment result					114,470	22,993	137,463
Unallocated corporate expenses ¹							125,653
Operating profit							11,810
Financial expenses, net							(1,265)
Share of post-tax profit of equity accounted joint ventures							19
Tax expense							(2,701)
Profit for the year							7,863
Assets							
Unallocated corporate assets							271,760
Total assets							271,760
Liabilities							
Segment Liabilities					29,142	5,547	34,689
Unallocated corporate liabilities							120,121
Total liabilities							154,810

¹⁾ Including share benefit charges of US\$2,309,000 and restructuring costs of US\$2,219,000.

Other than where amounts are allocated specifically to the B2C and B2B segments above, the expenses, assets and liabilities relate jointly to all segments. These amounts are not discretely analysed between the two operating segments as any allocation would be arbitrary.

Geographical information

The Group's performance can also be reviewed by considering the geographical markets and geographical locations within which the Group operates. This information is outlined below:

Revenue by geographical market¹

	Year ended 31 December,	
	Revenue	
	2011	2010
US \$ '000		
UK	153,090	127,371
Europe (excluding UK)	124,187	96,759
Americas	26,488	17,110
Rest of world	27,385	20,873
Revenue	331,150	262,113

¹⁾ Allocation of geographical segments is based on Net Revenue Commission received by the Group.

3 Segment information (Cont.)

Assets by geographical location

	Year ended 31 December			
	Carrying amount of segment assets by location		Additions to property, plant and equipment	
	2011	2010	2011	2010
	US \$ '000			
Europe (including UK)	228,469	229,954	3,299	7,365
Rest of World	40,663	41,806	1,276	1,700
	269,132	271,760	4,575	9,065

4 Administrative expenses

	Year ended 31 December,	
	2011	2010
	US \$ '000	
Share benefit charges - all equity-settled	2,374	2,309
Other administrative expenses	52,067	21,992
Administrative expenses	54,441	24,301

5 Operating profit

	Year ended 31 December,	
	2011	2010
	US \$ '000	
Operating profit is stated after charging:		
Staff costs (see note 6)	86,831	74,854
Audit fees	474	402
Other fees paid to auditors in respect of taxation services	12	11
Depreciation (within operating expenses)	9,039	8,480
Amortisation (within operating expenses)	3,998	3,796
Chargebacks	3,379	2,987
Payment service providers' commissions	18,769	13,882
Restructuring costs ¹	4,949	2,219
Share benefit charges - all equity-settled	2,374	2,309
Goodwill impairment (within administrative expenses – see note 12)	20,673	-

¹Following the departure of the former CEO on 30 April 2011, the Group has restructured its management team resulting in aggregated terminated staff and related costs of US\$4,949,000 for the year ended 31 December 2011 of which US\$3,909,000 are in relation to the former CEO. Total costs include \$503,000 in respect of accelerated share benefit charges arising on termination.

During 2010 the Group initiated measures designed to reduce its overheads and increase operational efficiency. These measures mainly affected employment costs and included redundancies across the Group's locations. Costs associated with these redundancies are reflected in the restructuring cost line for the year ended 31 December 2010.

6 Employee benefits

Staff cost including Executive Directors' remuneration comprises the following elements:

	2011	2010
	US \$ '000	
Wages and salaries	82,060	71,673
Social security	3,092	2,898
Pension costs	4,932	4,521
	90,084	79,092
Staff costs capitalized in respect of internally generated assets	(3,253)	(4,238)
	86,831	74,854

In the income statement total staff costs, excluding share benefit charge of US\$2,374,000 (2010: US\$2,309,000), are included within the following expenditure categories:

	2011	2010
	US \$ '000	
Operating expenses	49,133	48,525
Research and development expenses	19,567	14,483
Administrative expenses	18,131	11,846
	86,831	74,854

Average headcount number of employees by category:

	2011	2010
Operation	593	632
Research and development	217	179
Administration	119	126
	929	937

At 31 December 2011 the Group employed 932 (2010: 928) staff.

Severance pay liability - Israel

The Group's employees in Israel are eligible to receive certain benefits from the Group in certain defined circumstances. As such the Group operates a defined benefit severance pay plan which requires contributions to be made to separately administrated funds.

The method used to determine the current service cost and the present value of the defined benefit obligation, according to IAS 19 'Employee Benefits' is the Projected Unit Credit actuarial cost method. Actuarial gains and losses are recognised by the Group using the equity method.

The following table summarises the employee benefits figures as included in the Group's financial statements for 2011 and 2010, respectively:

	2011	2010
	US \$ '000	
Severance pay liability (within trade and other payables)	601	273
Income statement	3,044	2,548
Actuarial movements on severance pay liability (included in statement of comprehensive income)	443	366

6 Employee benefits (Cont.)

Movement in severance pay liability:

Severance pay plan assets

	Year ended 31 December,	
	2011	2010
	US \$ '000	
At beginning of year	8,279	6,784
Expected return	407	359
Contributions	3,030	2,630
Benefits paid	(2,442)	(2,254)
Actuarial gain on assets	(265)	181
Exchange differences	(617)	579
At end of year	8,392	8,279

Severance pay plan liabilities

	Year ended 31 December,	
	2011	2010
	US \$ '000	
At beginning of year	8,552	7,013
Interest cost	347	299
Current service costs	3,104	2,608
Benefits paid	(2,533)	(2,380)
Actuarial loss on obligations	178	547
Exchange differences	(655)	465
At end of year	8,993	8,552

Severance pay plan trends

	Year ended 31 December,			
	2011	2010	2009	2008
	US \$ '000			
Plan assets	8,392	8,279	6,784	4,220
Plan liabilities	(8,993)	(8,552)	(7,013)	(4,496)
Severance pay liability	(601)	(273)	(229)	(276)

The main actuarial assumptions used in determining the fair value of the Group's employee benefits plan are shown below:

	2011	2010
	%	
Discount rate (nominal)	4.34	4.71
Estimated increase in employee benefits costs	3	3
Voluntary termination rate	70	70
Estimated rate of return on assets	4.71	5.06

The discount rates are based on Israeli government bonds and reflect inflation rates of 2.19% in 2011 (2010: 2.86%).

7 Finance expenses

	Year ended 31 December,	
	2011	2010
	US \$ '000	
Interest expense	-	19
Interest expense on deferred consideration	3,694	-
Unwinding of discount on contingent and deferred consideration	3,692	1,122
Fair value movements on Foreign exchange derivatives	1,572	-
Foreign exchange losses	4,323	321
Finance expenses	13,281	1,462

8 Taxation

Corporate taxes

	Year ended 31 December,	
	2011	2010
	US \$ '000	
Current tax	3,761	2,490
Deferred tax	151	211
Taxation expense	3,912	2,701

	Year ended 31 December,	
	2011	2010
	US \$ '000	
Profit before taxation	5,847	10,564
Tax at effective tax rate in Gibraltar (2011:10%, 2010: nil)	585	-
Effect of overseas taxation	2,159	2,490
Effect of deferred tax originating in overseas jurisdictions	(91)	211
Permanent disallowable expenditure / (income)	1,954	-
Adjustments to prior years tax charges	(695)	-
Total tax charge for the year	3,912	2,701

Current tax is calculated with reference to the profit of the Company and its subsidiaries in their respective countries of operation:

Gibraltar - The Company and its Gibraltar registered subsidiaries were subject to the provisions of the Gibraltar Companies (Taxation and Concessions) Act (the 'CTCA') as tax-exempt companies. Subject to a change of ownership or activity of a tax-exempt company, the grandfathering of tax-exempt benefits in respect of existing tax-exempt companies extended up to 31 December 2010. Commencing as of January 1, 2011, Gibraltar companies are subject to a corporate tax rate of 10%. However, certain forms of income, including royalty income, are exempt from corporate tax.

8 Taxation (Cont.)

Israel - 888 has entered into certain transfer pricing agreements with the Israeli Income Tax Commissioner. The agreement in respect of its subsidiary, Random Logic Limited was effective until the end of 2010 and is currently being discussed. Domestic corporate tax in Israel in 2011 is 24% (2010: 25%). Effective from 2012 the corporate tax rate will increase to 25%.

UK - 888's subsidiary in the UK pays corporate tax in the UK at the applicable rate of 26% (2010: 28%).

9 Earnings per share

Basic earnings per share

Basic earnings per share have been calculated by dividing the profit attributable to ordinary shareholders by the weighted average number of shares in issue during the year.

Diluted earnings per share

In accordance with IAS 33, 'Earnings per share', the weighted average number of shares for diluted earnings per share takes into account all potentially dilutive shares and share options granted, which are not included in the number of shares for basic earnings per share. In addition, certain employee options have also been excluded from the calculation of diluted EPS as their exercise price is greater than the weighted average share price during the year and it would not be advantageous for the holders to exercise the option. The number of options excluded from the diluted EPS calculation is 1,305,779 (2010: 781,953).

	Year ended 31 December,	
	2011	2010
	US \$ '000	
Profit from continuing operations attributable to ordinary shareholders	1,935	7,863
Weighted average number of Ordinary Shares in issue	346,385,511	345,709,869
Effect of dilutive Ordinary Shares and Share options	3,597,516	2,620,010
Weighted average number of dilutive Ordinary Shares	349,983,027	348,329,879
Basic	0.6¢	2.3¢
Diluted	0.6¢	2.3¢

Adjusted earnings per share

The Directors believe that EPS excluding share benefit charges, restructuring costs, impairment charges and release of contingent consideration better reflects the underlying performance of the business and assists in providing a clearer view of the performance of the Group.

9 Earnings per share (Cont.)

Reconciliation of profit to profit excluding share benefit charges, restructuring costs, impairment costs and release of contingent consideration:

	Year ended 31 December,	
	2011	2010
	US \$ '000	
Profit from continuing operations attributable to ordinary shareholders	1,935	7,863
Share benefit charges (excluding Share benefit charges within restructuring costs)	2,374	2,309
Restructuring costs	4,949	2,219
Release of contingent consideration	(4,225)	-
Impairment charges	20,673	-
Profit excluding share benefit charges, restructuring costs, impairment charges and release of contingent consideration	25,706	12,391
Weighted average number of Ordinary Shares in issue	346,385,511	345,709,869
Weighted average number of dilutive Ordinary Shares	349,983,027	348,329,879
Adjusted basic earnings per share	7.4¢	3.6¢
Adjusted diluted earnings per share	7.3¢	3.6¢

10 Dividend

	Year ended 31 December,	
	2011	2010
	US \$ '000	
Dividends paid	-	10,491

11 Acquisitions completed in prior years

Mytopia social games

On 16 June 2010 the Group acquired the trade and assets comprising the Mytopia social games development studio ("Mytopia") from Real Dice Inc. for an all cash consideration.

In calculating the goodwill arising on acquisition, the fair value of the assets of Mytopia were valued by a professional valuation firm and recognised in accordance with IFRS 3 (revised) and adjustments from book value were necessary. These adjustments are summarized as follows:

	Book value on acquisition US\$'000	Fair value adjustments US\$'000	Fair value US\$'000
Intangible assets	-	1,870	1,870
Assets	-	1,870	1,870

The fair value relates to the recognition of online bingo game application (US\$830,000), software licence agreement (US\$410,000), non-compete agreement (US\$540,000) and a service agreement (US\$90,000) acquired as part of the acquisition. The online bingo game application intangible asset is being amortised over its estimated useful economic life of 3 years. The software licence agreement intangible asset is being amortised over its estimated useful economic life of 9 months. The non-compete agreement intangible asset is being amortised over its estimated useful economic life of 4 years. The service agreement is being amortised over its estimated useful economic life of 1 year.

11 Acquisitions completed in prior years (Cont.)

During the year the goodwill arising on acquisition of US\$20,173,000 was tested for impairment and fully provided against. Further details are given in note 12.

The Group paid US\$6.0m in February 2011 of contingent consideration in respect of the acquisition. The remaining contingent consideration of US\$5.1m (before discounting) that was recognised on acquisition has been released in the year. Further details are given in note 21.

Wink online Bingo business

On 31 December 2009 the Group acquired the trade and assets comprising the Wink online Bingo business of Daub Limited ('Wink Bingo Business') for an all cash consideration.

As noted in last year's annual report the financial performance of the Wink business post acquisition led to increases in the contingent consideration payable. In March 2011 the Group entered into an amendment agreement to fix the consideration payable. Further details are given in note 21.

The unwinding of the discount element of the deferred consideration is charged to finance expenses in the Income statement.

12 Intangible assets

	Internally generated intangible assets	Acquired intangible assets	Goodwill	Total
	US \$ '000			
Cost or valuation				
At 1 January 2010	10,213	6,842	58,611	75,666
Additions	5,870	-	67,001	72,871
Acquisitions	-	2,211	20,173	22,384
At 31 December 2010	16,083	9,053	145,785	170,921
Additions	4,079	201	-	4,280
At 31 December 2011	20,162	9,254	145,785	175,201
Amortisation and Impairments:				
At 1 January 2010	1,271	3,563	-	4,834
Charge for the year	1,785	2,011	-	3,796
At 31 December 2010	3,056	5,574	-	8,630
Impairment in the year	-	-	20,673	20,673
Charge for the year	2,548	1,450	-	3,998
At 31 December 2011	5,604	7,024	20,673	33,301
Carrying amounts				
At 31 December 2011	14,558	2,230	125,112	141,900
At 31 December 2010	13,027	3,479	145,785	162,291
At 31 December 2009	8,942	3,279	58,611	70,832

12 Intangible assets (Cont.)

Analysis of goodwill by cash generating units:

	Bingo online business	Mytopia social games	Internet domain name	Total Goodwill
	US \$ '000			
Valuation at 1 January 2010	58,111	-	500	58,611
Acquisitions of Mytopia social games	-	20,173	-	20,173
Adjustment to the Wink bingo business contingent consideration ¹	67,001	-	-	67,001
Valuation at 1 January 2011	125,112	20,173	500	145,785
Mytopia social games goodwill impairment	-	(20,173)	-	(20,173)
Internet domain name goodwill impairment	-	-	(500)	(500)
Valuation at 31 December 2011	125,112	-	-	125,112

¹ As a result of the financial performance of the Wink Bingo business since the commencement of the earn-out period on 1 April 2010 the board revised its estimate of the potential contingent consideration that would become payable to US\$75.5 million in 2010. This estimate was based on the assumption that the earn-out payment would reach its contractual cap. As the Wink Bingo acquisition was accounted for under IFRS3 (2004) the adjustment to contingent consideration was taken to goodwill. On 18 March 2011 the Group announced that it had entered into an amendment agreement with the Wink Bingo vendors to reschedule the earn out payment payable in May 2011. Further details are given in note 21.

Bingo Online Business

Intangible assets and goodwill associated with the cash generating online Bingo business unit relates to the acquisition of the online Bingo business of Globalcom Limited during 2007 and the acquisition of the Wink Bingo business in 2009. The income streams generated from the bingo business, comprising the B2C Bingo cash generating unit and the B2B cash generating unit, have been treated together as the risks and rewards associated with those income streams are deemed to be sufficiently similar.

At the year end, the carrying value-in-use was determined by discounting the expected future cash flows of the online Bingo cash generating units, to their present value. The key assumptions for the value-in-use calculations were those regarding discount rate and growth rates of the business. The Directors estimate discount rates that reflect the current market assessment of the time value of money and risks appropriate to the online Bingo business. The discount rate that is considered by the Directors to be appropriate is 8% (2010: 12%) being the Group's specific weighted average cost of capital which also applies to the online Bingo cash generating units.

Discount rate is re-calculated each year by taking into account prevailing risk free rates, equity risk premium and beta. The result this year was a lower discount rate primarily due to a lower company beta.

In estimating the future cash flows the Group has used conservative estimates in respect of revenues generated and costs incurred and therefore certain B2B contracts due to end in the next 5 years have not been projected to be renewed and have been expected to decline gradually over the period to contract end. Growth rates of the online Bingo business are based on past experience and projections of future changes in the online gaming market, taking into account external sources of information such as analysts' research reports. These suggest that Bingo is expected to demonstrate year on year growth. The Group has used lower growth rates in estimating the future cash flows conservatively reflecting the current uncertainties about the medium-term global economic outlook. The Directors have used

12 Intangible assets (Cont.)

forecasts for the next five years of the expected cash flows, of which the first year is based on the Group's current approved budget.

Excluding the effects of B2B contracts projected to come to an end over the 5 year period, an annual underlying growth rate of 2% (2010: 7%) was used for 2012 mainly attributed to the stabilization in the Wink Bingo business revenues after the earn out period ended on March 2011. For 2013-2016, no growth rate was assumed (2010: no growth). Following year five, the Group extrapolates cash flows in perpetuity, using an estimated conservative growth rate of 1% (2010: 1%), which is lower than the forecast long-term growth rate of the UK economy. Marketing costs associated with the Bingo cash generating units were projected as a fixed percentage of revenues. All other operational costs are forecast as percentage of revenue, such percentage increased conservatively by 6% (2010: 7%) in each of the five year periods to 2016, over and above the level of growth in revenues and well above the actual level experienced in 2011.

The Directors are not aware at this time of any need to change their key assumptions on which they have based their determination of the recoverable amount of the goodwill which would cause its carrying amount to exceed its recoverable amount. In fact, although such movements are not expected to arise, neither a 1% decrease in the growth rate in each of the next three years nor a 5% increase in the discount rate would have led to an impairment of the acquired intangible assets and goodwill in the current year.

Mytopia social games

The Group has performed an impairment review during the year on the cash generating Mytopia social games unit which was acquired in June 2010, and was affected by commercial disputes which arose during the year over two branded social games which Mytopia was developing. This review compared carrying value to value in use and fair value less costs to sell, adjusting the originally forecast revenue arising. Due to the overall reduced expectation of income growth from the Mytopia business, it was determined that the recoverable amount of that business was US\$957,000 based on an estimate by management of fair value less costs to sell which has resulted in a full impairment charge of US\$20,173,000 against goodwill. Other assets acquired have not been impaired.

The impairment charge has been taken to administrative expenses in the consolidated Income statement and is included within the B2C operating segment.

Other intangible assets associated with the cash generating Mytopia social games unit acquired during June 2010 including an online bingo game application, software licence agreement, non-compete agreement and a service agreement, are being amortized over their estimated useful economic lives of up to four years.

At the previous year end, the carrying value-in-use was determined by discounting the expected future cash flows to their present value. The key assumptions for the value-in-use calculations were those regarding discount rate, users' life time value, marketing spend and growth rates of the business.

In estimating the future cash flows the Directors used estimates in respect of revenues generated and costs incurred. Growth rates of the Mytopia business were based on projections of future changes in the social games market, taking into account external sources of information such as analysts' research reports and publicly available information that analyzes KPIs of various social networks game providers and the development of new games by Mytopia. Forecast revenues assumed lower user's life value compared to other major social games.

The Directors used forecasts for the following five years of the expected cash flows, of which the first year was based on the Group's 2011 budget. Revenue was forecast to grow between 2011 and 2014 assuming a compound quarterly growth of 21%, and cost of sales was forecast at an average of 23% of revenue. Marketing costs were projected to increase by a fixed compounded monthly percentage during 2012 to 2014 across all games. All other overhead

12 Intangible assets (Cont.)

costs (mainly wages) were forecast in line with 2011 budget which, on an annualized basis assumed an increase of 50% over 2010 actual figures. Thereafter these costs were assumed to increase by 3 % in each of 2012 to 2014. Following year five, the Group used a long term growth rate of 2%. The Directors estimated discount rates of 18%.

Internet domain name

During 2008 the Group acquired an internet domain name based business which is used to generate traffic into the Group's various web sites. Out of total consideration of US\$513,000, an intangible asset of US\$13,000 was recognized whilst the remainder of US\$500,000 was recognised as goodwill.

The Group has performed an impairment review at the year end, in respect of the carrying value-in-use of the internet domain name. comparing carrying value to value in use and fair value less costs to sell, adjusting the originally forecast revenue arising. Due to the overall reduced expectation of income growth from the internet domain , it was determined that the recoverable amount of the internet domain was nil based on an estimate by management of fair value less costs to sell which has resulted in a full impairment charge of US\$500,000 against goodwill and US\$13,000 against intangible assets.

Licences

In respect of certain licences costs amounting to US\$3.7 million where the Group considers these to have an indefinite life, the Group has conducted an impairment review at the period end, in respect of the carrying value-in-use of its licences comparing carrying value to value in use and fair value less costs to sell. At the year end, the carrying value-in-use was determined by discounting the expected future cash flows of the relevant cash generating unit (CGU), to its present value. The key assumptions for the value-in-use calculations were those regarding discount rate and growth rates of the business. The Directors estimate discount rates that reflect the current market assessment of the time value of money and risks appropriate to the relevant CGU. The discount rate that is considered by the Directors to be appropriate is 8% being the Group's specific weighted average cost of capital.

The Group has used prudent growth of 3% in respect of revenue and conservative costs figures in assessing the expected cash flows from the CGU. At 31 December 2011 no impairment needs to be recognised.

Internally generated intangible assets

The Group has put in place processes and procedures which enable it to ascertain technological feasibility before development costs are incurred and therefore be in a position to capitalise costs incurred after that point. Such expenditure is only capitalised when the development cost meets the definition of an intangible asset and the recognition criteria as set out in IAS 38 'Intangible assets'.

The Group estimates the useful life of these assets as between 3 and 5 years. These assets are subject to impairment test wherever events or changes in circumstances indicate their carrying amount may not be recoverable on the same basis as described above for acquired intangible assets. At 31 December 2011 no impairment needs to be recognised and the carrying value of internally generated assets is considered appropriate.

13 Property, plant and equipment

	IT equipment	Office furniture and equipment	Motor vehicles	Leasehold improvements	Total
US \$ '000					
Cost					
At 1 January 2010	33,125	2,641	503	14,848	51,117
Additions	8,617	120	63	265	9,065
Disposals	-	-	(35)	-	(35)
At 31 December 2010	41,742	2,761	531	15,113	60,147
Additions	4,397	82	-	96	4,575
Disposals	(5,600)	-	(21)	(1,895)	(7,516)
At 31 December 2011	40,539	2,843	510	13,314	57,206
Accumulated depreciation					
At 1 January 2010	21,669	1,490	287	6,687	30,133
Charge for the year	6,920	251	75	1,234	8,480
Disposals	-	-	(13)	-	(13)
At 31 December 2010	28,589	1,741	349	7,921	38,600
Charge for the year	7,545	187	62	1,245	9,039
Disposals	(5,601)	-	-	(1,891)	(7,492)
At 31 December 2011	30,533	1,928	411	7,275	40,147
Depreciated cost					
At 31 December 2011	10,006	915	99	6,039	17,059
At 31 December 2010	13,153	1,020	182	7,192	21,547
At 31 December 2009	11,456	1,151	216	8,161	20,984

14 Investment in equity accounted joint ventures

The following entity meets the definition of a Jointly controlled entity and has been equity accounted in the consolidated financial statements:

Name	Country of incorporation	Percentage of equity interest 2011 %	Percentage of equity interest 2010 %
Technology Solutions (Gibraltar) Limited	Gibraltar	50%	50%

On 6 October 2010 the Group entered into a Joint Venture Agreement ("JVA") via 888 Regulated Markets Ltd. ("888 RM"), a wholly owned subsidiary, with Prima Networks Ltd. ("PNL") and Technology Solutions (Gibraltar) Ltd. ("TSG"), a Gibraltar company jointly owned by 888 RM and PNL in equal parts.

The Group through 888 RM obtained in 2010 a licence to operate online poker games in France.

14 Investment in equity accounted joint ventures (Cont.)

Under the terms of the JVA, 888 RM, PNL and TSG operate the network jointly, utilizing rights to use poker software technology and related services required to make the Games available for use in the French poker networks of PNL (licenced to TSG) and 888 RM and combining them into one French poker network sharing the liquidity of their respective customers.

Aggregated amounts relating to TSG are as follows:

	<u>2011</u>	<u>2010</u>
	<u>US\$'000</u>	
Current assets	-	6
Non-current assets	2,348	2,502
Current liabilities	2,207	2,467
Non-current liabilities	-	-
Revenues	1,712	414
Expenses	(1,544)	(376)
Profit	168	38
Share of before tax profit of Joint Venture	84	19
Investment including loans in equity accounted Joint Venture	1,243	1,297

15 Financial Assets – Available for sale investments

	<u>Year ended 31 December,</u>	
	<u>2011</u>	<u>2010</u>
	<u>US \$ '000</u>	
Opening balance at the beginning of the year	175	-
Investments during the year	-	175
	<u>175</u>	<u>175</u>

Available-for-sale assets comprised of unquoted securities. The fair value of these has been determined on the basis of expected cash flows discounted using a rate based on the market interest rate and a premium specific to the unlisted securities. Fair value movements for 2010 and 2011 were insignificant.

16 Deferred taxes

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The Group's deferred tax assets resulting from temporary differences are as follows:

	Year ended 31 December,	
	2011	2010
	US \$ '000	
Accrued severance pay	280	88
Property, plant and equipment	101	-
Intangible assets	(408)	-
Provision for share benefit charges	116	94
Provision for vacation	323	382
Provision for convalescence	23	22
	435	586

17 Cash and cash equivalents

	31 December,	
	2011	2010
	US \$ '000	
Cash and cash equivalents	74,028	60,569
Restricted cash	7,824	951
	81,852	61,520

Restricted cash primarily relates to deposits held by banks for guarantees

18 Trade and other receivables

	31 December,	
	2011	2010
	US \$ '000	
Trade receivables	17,197	12,332
Corporate tax	1,799	796
Other receivables and prepayments	7,472	11,216
	26,468	24,344

The carrying value of trade and other receivables approximates to their fair value as the credit risk has been addressed as part of impairment provisioning and, due to the short-term nature of the receivables; they are not subject to ongoing fluctuations in market rates.

20 Trade and other payables

	31 December,	
	2011	2010
	US \$ '000	
Trade payables	27,308	15,335
Corporate taxes	667	309
Other payables and accrued expenses	37,487	22,170
	65,462	37,814

The carrying value of trade and other payables approximates to their fair value given the short maturity date of these balances. Comparative amounts have been reclassified between trade and other payables following a review by management.

21 Contingent and deferred consideration

	31 December,	
	2011	2010
	US \$ '000	
Deferred (2010 contingent) consideration re Wink acquisition ¹	37,397	72,046
Contingent consideration re Mytopia acquisition ²	-	10,225
	37,397	82,271

¹On 18 March 2011 the Group announced that it had entered into an amendment agreement with the Wink Bingo vendors to reschedule the earn out payment payable in May 2011. The earn out payment reached its maximum cap of £59.7 million out of which £11 million was paid on 31 December 2009. Under the revised payment terms the Group made a payment out of its cash resources of £9.26 million on 18 March 2011, £9.26 million on 21 May 2011 and £6.173 million on 31 August 2011. On 23 February 2012 the Group paid an amount of £20.2 million resulting in a balance of £3.8 million payable on 21 May 2012 without a penalty. Payments after 21 May 2011 bear interest at 15% per annum. The Group has implemented security over the assets comprising the Wink bingo business in favor of the vendors.

²On February 2011 the Group paid US\$6.0 million due upon meeting certain milestones connected to the mobile and social networking games. An estimated earn-out payment of US\$5.1 million was supposed to be payable in cash during the second quarter of 2012 based on achieving certain performance criteria during 2011. The subsequent financial performance has led to a release of that liability as the performance criteria were not achieved

21 Contingent and deferred consideration (Cont.)*Contingent and deferred consideration- movements in the year*

	<u>Wink</u>	<u>Bingo</u>	<u>Mytopia</u>	<u>Total</u>
	<u>business</u>		<u>social games</u>	
	<u>US \$ '000</u>			
Contingent & deferred consideration at the beginning of the year		72,046	10,225	82,271
Paid in year – Capital amounts		(40,080)	(6,000)	(46,080)
Unwinding of discount		3,692	-	3,692
Release of contingent consideration		-	(4,225)	(4,225)
Foreign exchange differences on deferred consideration		1,739	-	1,739
		<u>37,397</u>	<u>-</u>	<u>37,397</u>
Deferred consideration at the end of the year				

22 Liabilities to customers and progressive prize pools

	<u>31 December,</u>	
	<u>2011</u>	<u>2010</u>
	<u>US \$ '000</u>	
Liabilities to customers	40,016	30,630
Progressive prize pools	4,938	4,095
	<u>44,954</u>	<u>34,725</u>

23 Investments in significant subsidiaries

Name	Country of incorporation	Percentage of equity interest	Percentage of equity interest	Nature of business
		2011 %	2010 %	
Cassava Enterprises (Gibraltar) Limited	Gibraltar	100	100	Gaming website operator
Virtual Marketing Services (UK) Limited	UK	100	100	Advertising services
Virtual Marketing Services (Gibraltar) Limited	Gibraltar	100	100	Marketing acquisition
Dixie Operation Limited	Antigua	100	100	Customer call center operator
Random Logic Limited	Israel	100	100	Research, development and marketing
Brigend Limited	Gibraltar	100	100	Bingo business operator
Fordart Limited	Gibraltar	100	100	General commercial business activities
New Wave Virtual Ventures Limited	Gibraltar	100	100	Development of social games – Mytopia.
Virtual Internet Services Limited	Gibraltar	100	100	General commercial business activities
Gisland Limited	Gibraltar	100	100	Provider of payments service solutions; Holds money transmission licence
888 Regulated Markets Limited	Malta	100	100	Holder of French online gaming licence
888 Denmark Limited	Gibraltar	100	-	Holder of Danish online gaming licence
888 Spain Public Limited Company	Gibraltar	100	-	Applied for Spanish online gaming licence
888 Virtual Limited	Gibraltar	100	-	Holder of group IP assets

24 Share-based payment

Prior to flotation, the Company adopted two equity-settled employee share incentive plans - the 888 All-Employee Share Plan and the Long-term Incentive Plan. The 888 All-Employee Share Plan is open to all employees and Executive Directors of the Group who are not within six months of their normal retirement age at the discretion of the Remuneration Committee. Awards under this scheme will vest in installments over a fixed period of up to four years.

The Company grants awards to certain Executive Directors and members of its senior management. These awards are subject to performance conditions imposed by the Remuneration Committee at the dates of grant.

Details of Shares and Share Options granted as part of the 888 All-Employee Share Plan:

24 Share-based payment (Cont.)

Share options granted

	31 December,			
	2011		2010	
	Weighted average exercise price	Number	Weighted average exercise price	Number
Outstanding at the beginning of the year	£ 1.38	4,587,481	£ 1.38	6,027,789
Market value options granted during the year	-	-	-	-
Market value options lapsed during the year	£ 1.29	(942,437)	£ 1.36	(1,440,308)
Outstanding at the end of the year:	£ 1.41	3,645,044	£ 1.38	4,587,481

- 1) Of the total number of options outstanding at the end of the year, 2,932,129 had vested and were exercisable at the end of the year (2010: 2,836,040).
- 2) Range of exercise price for options outstanding at the end of the year is £1.02-£1.80 (2010: £1.02-£1.80).

Shares granted

	31 December,	
	2011	2010
	Number	Number
Outstanding at the beginning of the year	4,441,138	7,182,929
Shares granted - future vesting	5,091,457	1,689,103
Lapsed future vesting shares	(906,344)	(2,240,804)
Shares issued during the year	(2,257,959)	(2,190,090)
Outstanding at the end of the year	6,368,292	4,441,138

Shares are granted at a nominal exercise price.

Valuation information – Shares granted

	2011	2010
Weighted average share price at grant date	£ 0.34	£ 0.50
Weighted average share price at issue of shares	£ 0.34	£ 0.66
Average remaining life until vesting (Months)	20	15

Shares granted for future vesting are fair valued at the share price at grant date. The restrictions on the shares during the vesting period, primarily relating to non-receipt of dividends, have an immaterial effect on this fair value estimate at grant date.

In accordance with International Financial Reporting Standards a charge to the income statement in respect of any shares or options granted under the above schemes will be

Notes to the Consolidated Financial Statements

recognised and spread over the vesting period of the shares or options based on the fair value of the shares or options at the date at grant, adjusted for changes in vesting conditions at each balance sheet date. This charge has no cash impact.

24 Share-based payment (Cont.)

Share benefit charges

	Year ended 31 December	
	2011	2010
	US \$ '000	
Charges in respect of share and option awards granted this year	607	246
Charges in respect of share and option awards granted in previous years	1,767	2,063
	2,374	2,309
Charges in respect of share and option awards granted in previous years included within restructuring charges (see note 5)	503	-
Charge for the year	2,877	2,309

25 Related party transactions

During the year the Group paid US\$81,290 (2010: US\$258,815) in respect of rent and office expenses to companies of which Mr. John Anderson was a Director. At 31 December 2011 the amount owed to those companies was nil (2010: nil).

Remuneration paid to the Directors in the year totalled US\$6,676,000 (2010: US\$2,284,000). Share benefit charge in respect of awards granted to the Directors totalled US\$1,055,000 (2010: US\$348,380).

26 Commitments

Lease commitments

Future minimum lease commitments under property operating leases for the year ended 31 December 2011 are as follows:

	Year ended 31 December	
	2011	2010
	US \$ '000	
Leases expiring within		
One year	3,278	2,937
Two to five years	11,357	12,956
	14,635	15,893

The amount paid in the year was US\$3,714,000 (2010: US\$3,060,000).

Lease commitments on the Group's property are shown to the date of the first break clause.

27 Financial risk management

The Group is exposed through its operations to risks that arise from use of its financial instruments. Policies and procedures for managing these risks are set by the Board following recommendations from the Chief Financial Officer. The Board reviews the effectiveness of these procedures and, if required, approves specific policies and procedures in order to mitigate these risks.

The main financial instruments used by the Group, on which financial risk arises, are as follows:

- Cash and cash equivalents;
- Restricted cash;
- Trade and other receivables;
- Trade and other payables;
- Liabilities to customers;
- Contingent consideration on acquisition.
- Available for sale financial investments

Detailed analysis of these financial instruments is as follows:

	31 December	
	2011	2010
Financial assets	US \$ '000	
Trade receivables	17,197	12,332
Other receivables	9,271	12,012
Cash and cash equivalents	74,028	60,569
Restricted cash	7,824	951
Available for sale financial investments	175	175
	108,495	86,039

In accordance with IAS 39, with the exception of available-for-sale assets, all financial assets are classified as loans and receivables.

	31 December	
	2011	2010
Financial liabilities	US \$ '000	
Trade payables	27,308	4,179
Other payables and accrued expenses	38,154	33,635
Contingent and deferred Consideration	37,397	82,271
Liabilities to customers	44,954	34,725
	147,813	154,810

In accordance with IAS 39, all of the above financial liabilities are held at amortised cost, except for US\$1,534,000 relating to the forward currency contracts to hedge risks associated with foreign exchange rates. Such derivative financial instruments are measured at fair value under IAS39 and comprise level 2 fair value measurement instruments. (2010: US\$82,271,000 relating to the contingent consideration arising on acquisitions which are recognised at fair value.)

At 31 December 2011 and 2010, the fair value and the book value of the Group's financial assets and liabilities were materially the same.

27 Financial risk management (Cont.)

Capital

The capital employed by the Group is composed of equity attributable to shareholders. The primary objective of the Group is maximizing shareholders' value, which, from the capital perspective, is achieved by maintaining the capital structure most suited to the Group's size, strategy, and underlying business risk. Other than disclosed elsewhere in note 28, there are no demands or restrictions on the Group's capital.

The main financial risk areas are as follows:

Credit risk

Trade receivables

The Group's credit risk is primarily attributable to trade receivables who are the Group's payment service providers ('PSP'). These are third party companies that facilitate deposits and withdrawals of funds to and from customers' virtual wallet with the Group. These are mainly intermediaries that transact on behalf of the main credit card companies.

The risk is that a PSP would fail to discharge its obligation with regard to the balance owed to the Group. The Group reduces this credit risk by:

- Monitoring those balances on a regular basis.
- Arranging for the shortest possible cash settlement intervals.
- Replacing rolling reserve requirements, where they exist, with a Letter of Credit by a reputable financial institution.
- Ensuring a new PSP is only contracted following various due diligence and 'Know Your Customer' procedures.
- Ensuring policies are in place to reduce dependency on any specific PSP

The Group believes that based on the above and on extensive past experience, the PSP receivables are of good credit quality and there is no requirement to provide for any potential bad debts arising from a PSP failing to discharge its obligation. None of the balances owed by the various PSP are overdue or impaired (2010: nil).

An additional credit risk the Group faces relates to customers disputing charges made to their credit cards ('chargebacks') or any other funding method they have used in respect of the services provided by the Group. Customers may fail to fulfill their obligation to pay which will result in funds not being collected. These chargebacks and uncollected deposits, when occurring, will be deducted at source by the PSPs from any amount due to the Group. As such the Group provides for these eventualities by way of a provision based on analysis of past transactions. This provision is netted off from the trade receivables balance and at 31 December 2011 was US\$1,161,000 (2010: US\$886,000).

The Group's in-house Fraud and Risk Management department carefully monitors deposits and withdrawals by following prevention and verification procedures using internally developed bespoke systems integrated with commercially available third party measures.

Cash and cash equivalents

The Group controls its cash position out of its Gibraltar headquarters. Subsidiaries in its other locations (Israel, Antigua and London) maintain minimum cash balances which are deemed required for their operations.

Cash settlement proceeds from PSPs, as described above, are paid into bank accounts controlled by the Treasury function.

The Group maintains its funds with highly reputable financial institutions and will not hold funds with financial institutions with low credit rating.

27 Financial risk management (Cont.)

The Group maintains its cash reserve in highly liquid deposits and regularly monitors rates in order to maximize yield.

Restricted cash

Restricted cash is mainly attributed to a deposit in respect of the Spanish licence application.

The Group's maximum exposure to credit risk by type of financial instrument is summarized below:

	31 December 2011		31 December 2010	
	Carrying value	Maximum exposure	Carrying value	Maximum exposure
	US \$ '000			
Trade receivables	17,197	17,197	12,332	12,332
Other receivables	9,271	9,271	12,012	12,012
Cash and cash equivalents	74,028	74,028	60,569	60,569
Restricted cash	7,824	7,824	951	951
Available for sale financial investments	175	175	175	175
	108,495	108,495	86,039	86,039

Liquidity risk

Liquidity risk exists in the case where the Group will encounter difficulties in meeting its financial obligations as they become due.

The Group monitors its liquidity in order to ensure that sufficient liquid resources are available to allow it to meet its obligations.

The following table details the contractual maturity analysis of the Group's financial liabilities:

	31 December 2011				Total
	Trade payables	Other payables ¹	Deferred consideration	Liabilities to customers	
	US \$ '000				
On demand	8,479	1,007	-	44,954	54,440
In 3 months	17,107	34,416	-	-	51,523
Between 3 months and 1 year	1,467	1,634	37,397	-	40,498
More than 1 year	255	1,097	-	-	1,352
	27,308	38,154	37,397	44,954	147,813

¹ Includes other payables, accrued expenses, derivative financial liabilities and provisions.

27 Financial risk management (Cont.)

	31 December 2010				Total
	Trade payables	Other payables ¹	Contingent consideration	Liabilities to customers	
	US \$ '000				
On demand	1,857	7,356	-	34,725	43,938
In 3 months	2,068	24,621	5,987	-	32,676
Between 3 months and 1 year	254	662	72,046	-	72,962
More than 1 year	-	996	4,238	-	5,234
	<u>4,179</u>	<u>33,635</u>	<u>82,271</u>	<u>34,725</u>	<u>154,810</u>

¹ Includes other payables, accrued expenses and provisions.

Market risk**Interest rate risk**

The Group's exposure to interest rate risk is limited to the interest bearing deposits in which the Group invests surplus funds.

The Group's policy is to invest surplus funds in low risk money market funds or on call over night facilities. The Group also arranges with its principal bankers that excess funds are swept automatically across its accounts, every night, in order to maximize availability of funds for investments.

Downside interest rate risk is minimal as the Group has no floating rates borrowings. Given current low US\$ interest rate a 0.5% downward movement in bank interest rates would not have a significant impact on finance income for the year. However, a 0.5% increase in interest rates would, based on the year end deposits, increase annual profits by US\$250,000.

Currency risk

The Group's financial risk arising from exchange rate fluctuations is mainly attributed to:

- Mismatch between Balance sheet Liabilities to customers which is predominantly denominated in US\$ and the net receipts from customers which are settled in the currency of the customer's choice, of which sterling (GBP) and Euros (EUR) are significant.
- Mismatch between reported revenue which is mainly generated in USD (the Group's functional and reporting currency) and significant portion of deposits which are settled in local currencies.
- Expenses, the majority of which are denominated in foreign currencies including sterling (GBP), euro (EUR) and New Israeli Shekel (ILS).
- The Wink Bingo deferred consideration is denominated in GBP. The Group entered into a specific forward contract in order to fix the economic impact of the currency mismatch.

The Group continually monitors the foreign currency risk and takes steps, where practical, to ensure that the net exposure is kept to an acceptable level, inter alia by using foreign exchange forward contracts designed to fix the economic impact of known liabilities. At 31 December 2011 there were 20,000,000 GBP outstanding forward contracts regarding the Wink deferred liability whose fair value is US\$1,534,000 and with a remaining contractual life of 5 months.

27 Financial risk management (Cont.)

The tables below detail the net financial position by currency at 31 December 2011 and 2010:

	31 December, 2011					Total
	GBP	EUR	ILS	USD	Other	
	US \$ '000					
Cash and cash equivalent	12,699	16,098	6,111	44,099	2,845	81,852
Receivables	9,491	6,742	2,411	5,190	2,634	26,468
Available for sale financial investments	-	-	-	175	-	175
	<u>22,190</u>	<u>22,840</u>	<u>8,522</u>	<u>49,464</u>	<u>5,479</u>	<u>108,495</u>
Net monetary assets						
Payables	(62,905)	(8,483)	(15,161)	(60,912)	(352)	(147,813)
Net monetary liabilities	<u>(62,905)</u>	<u>(8,483)</u>	<u>(15,161)</u>	<u>(60,912)</u>	<u>(352)</u>	<u>(147,813)</u>
Net financial position	<u>(40,715)</u>	<u>14,357</u>	<u>(6,639)</u>	<u>(11,448)</u>	<u>5,127</u>	<u>(39,318)</u>

	31 December, 2010					Total
	GBP	EUR	ILS	USD	Other	
	US \$ '000					
Cash and cash equivalent	11,820	9,430	5,706	31,496	3,068	61,520
Receivables	10,779	4,631	1,454	5,863	1,617	24,344
Available for sale financial investments	-	-	-	175	-	175
	<u>22,599</u>	<u>14,061</u>	<u>7,160</u>	<u>37,534</u>	<u>4,685</u>	<u>86,039</u>
Net monetary assets						
Payables	(94,226)	(2,828)	(9,308)	(48,115)	(333)	(154,810)
Net monetary liabilities	<u>(94,226)</u>	<u>(2,828)</u>	<u>(9,308)</u>	<u>(48,115)</u>	<u>(333)</u>	<u>(154,810)</u>
Net financial position	<u>(71,627)</u>	<u>11,233</u>	<u>(2,148)</u>	<u>(10,581)</u>	<u>4,352</u>	<u>(68,771)</u>

Sensitivity analysis

The table below details the effect on profit before tax of a 10% strengthening (and weakening) in the US Dollar exchange rate at the balance sheet date for balance sheet items denominated in Sterling, Euros and New Israeli Shekels:

	Year ended 31 December, 2011		
	GBP	EUR	ILS
10% Strengthening	4,071	1,436	664
10% Weakening	(4,071)	(1,436)	(664)
	Year ended 31 December, 2010		
	GBP	EUR	ILS
10% Strengthening	7,163	1,123	215
10% Weakening	(7,163)	(1,123)	(215)

28 Contingent liabilities and regulatory issues

- (a) As part of the Board's ongoing regulatory compliance and operational risk assessment process, the Board continues to monitor legal and regulatory developments, and their potential impact on the business, and continues to take appropriate advice in respect of these developments.
- (b) Given the nature of the legal and regulatory landscape of the industry, from time to time the Group has received notices, communications and legal actions from a small number of regulatory authorities and other parties in respect of its activities. The Group has taken legal advice as to the manner in which it should respond and the likelihood of success of such actions. Based on this advice and the nature of the actions, the Board is unable to quantify reliably any material outflow of funds that may result, if any. Accordingly, no provisions have been made.
- (c) The Group operates in numerous jurisdictions. Accordingly, the Group is filing tax returns, providing for and paying all taxes it believes are due based on local tax laws, transfer pricing agreements and tax advice obtained. The Group is periodically subject to audits and assessments by local taxing authorities. The Board is unable to quantify reliably any exposure for additional taxes, if any, that may arise from the final settlement of such assessments. Accordingly no additional provisions have been made

29 Post balance sheet events

- (a) As part of commercial negotiations between the group and one of its B2B white label customers, the group has acquired the customer's domain names and brands as at 1 January 2012. As a result the group will be recognising the income within its B2C business for 2012 rather than the net commission charged within B2B income as was the case for 2011. Based upon the provisional estimates of fair value there is no material effect on the group assets and liabilities
- (b) On 23 February 2012 the Group prepaid £20.2 million of the Wink deferred consideration to reduce interest costs. This resulted in a balance of £3.8 million payable on 21 May 2012 without a penalty.