13 March 2013

888 Holdings Public Limited Company
('888' or the 'Company')

Annual financial report for the year ended 31 December 2012

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 2012.

Financial Highlights

- Revenue increased 13% to US$376m (2011: US$331m)
- B2C Revenue increased 16% to US$330m (2011: US$284m)
- Adjusted EBITDA* increased 20% to US$67m (2011: US$56m)
- Adjusted EBITDA* margin increase to 17.8% (2011: 16.8%)
- Final dividend reinstated at 4.5 cents per ordinary share per the group's payout ratio, and due to strong performance the Board has sanctioned an additional one-off dividend of 2.0 cents per share, bringing the total dividend per share for the year to 9.0 cents per share
- As at 31 December 2012, 888 had 13.1 million Casino, Poker and Sport real money registered customer accounts, representing an increase of 23% since 31 December 2011

Operational Highlights

- Significant market share built in Spain following award of Spanish eGaming Licence in June 2012
- In January extended relationship with Caesars to power a number of their poker brands including the "WSOP" into the US, once regulated
- Strategic agreement signed with WMS in July 2012, a global leader in the design, manufacture and distribution of games, gaming content and gaming machines in the United States, enabling WMS to offer an online product to all its customers utilising 888's state of the art poker platform
- Agreement signed with Facebook to launch real-money products
- Slots introduced in Italy in December 2012
- Significant increase in customer recruitment and revenue from mobile platforms following launch of multi-platform mobile suite and apps

Recent Developments

- In February 2013, New Jersey Governor Chris Christie signed legislation authorising online gambling in the state, clearing the way for internet betting to begin in H2 2013
- March 6 - Nevada Gaming Control Board recommended to the Nevada Gaming Commission the approval of the licensing of 888 as an Interactive Gaming Service Provider. Commission hearing on 21 March 2013.
- March 11 - signed US Joint Venture Agreement with Avenue Capital Group to launch and operate a comprehensive B2C gaming offering

Current Trading

Trading has continued to be strong in the new fiscal year across all key performance indicators including new customer recruitment, deposits and bets. Specifically, average daily revenue during the quarter until 9th March is 8% higher than Q1 2012, a record quarter at the time, led by Casino and Poker. Bingo trading conditions continue to be challenging as are the current currency headwinds.

** As defined in the table below*

Brian Mattingley, CEO of 888, commented:

"2012 was an exceptional year for 888. The ongoing focus on our core strengths and the customer proposition, coupled with the very positive effects of our targeted marketing campaigns, has led to tremendous growth in player numbers and record results. Our performance in Spain and Italy indicates that we have a compelling offering marketed in such a way that we are able to build significant market share in newly regulating territories, something that places us in a very exciting position as the US market begins to open for business.

Led by the long-awaited re-opening of the US market, from which we are uniquely well placed to benefit, 2013 is a year of significant opportunity and we have got the right deals in place, both B2B and B2C, to gain a substantial foothold in the US. Growth in mobile gaming is also changing the industry, and our efforts in 2012 have allowed us to take advantage of the new ways in which people wish to play. We expect to see further growth in this area in 2013 and thus we remain confident in the outlook for 2013 and beyond. "

Financial Summary

	Year ended 31 December 2012[1]	Year ended 31 December 2011[1]	Change
	$ million	**$ million**	
Revenue			
B2C			
Casino	165.5	148.0	12%
Poker	87.5	60.6	44%
Bingo	51.8	54.0	(4%)
Emerging Offering	25.0	21.6	16%
Total B2C	**329.8**	**284.2**	**16%**
B2B	**46.0**	**47.0**	**(2%)**
Revenue	**375.8**	**331.2**	**13%**
Operating Expenses[2,3]	113.5	108.6	
Gaming duties[4]	11.5	7.3	
Research and Development Expenses	27.2	29.9	
Selling and Marketing Expenses	131.2	102.3	
Administrative Expenses[3,5,6]	25.6	27.5	
Adjusted EBITDA	**66.8**	**55.6**	**20%**
Net Finance income (expenses)[7]	1.9	(13.1)	
Depreciation and Amortisation	(14.8)	(13.0)	
Adjusted Profit Before Tax [3,4,5,6,8]	**53.9**	**29.5**	**82%**
Adjusted Earnings Per Share [3,4,5,6,8]	**13.9¢**	**7.4¢**	**88%**

Reconciliation of Operating Profit to Adjusted EBITDA	Year ended 31 December 2012[1]	Year ended 31 December 2011[1]
Operating profit	**36.9**	**14.6**
Depreciation	9.2	9.0
Amortisation	5.6	4.0
Restructuring costs	-	4.9
Retroactive duties and associated charges	11.1	-
Share benefit charges	1.7	2.4
Impairment charges	2.2	20.7
Adjusted EBITDA	**66.8**	**55.6**

[1] Totals may not sum due to rounding.
[2] Excluding depreciation of US$9.2 million (2011: US$9.0 million) and amortisation of US$5.6 million (2011: US$4.0 million).
[3] Excluding restructuring costs of nil (2011: US$4.9 million out of which US$1.0 million related to Operating expenses and US$3.9 million to Administrative expenses).
[4] Excluding retroactive duties and associated charges of US$11.1 million (2011: nil)
[5] Excluding share benefit charges of US$1.7 million (2011: US$2.4 million)
[6] Excluding impairment charges of US$2.2 million (2011: US$20.7 million).
[7] Comprising Finance income of US$4.6 million (2011: US$0.2 million) net of Finance expenses of US$2.7 million (2011: US$13.3 million).
[8] Excluding movement in contingent and deferred consideration of US$2.0 million (2011: US$4.2 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 14:30 (GMT) 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.

Contacts and enquiries

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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

2012 has been a record year for 888. We are delighted to report an increase in profit after tax from US$2 million in 2011 to US$35 million in 2012. The success of our customer offering and targeted marketing is overcoming a backdrop of global economic uncertainty and helping us capitalise on the ever changing regulatory landscape.

We have made significant progress in driving the business forward, building on the change in strategic direction set in train last year. I am delighted that in March Brian Mattingley agreed to take the Chief Executive Officer position. Brian has been a member of the 888 Board since the IPO and has an excellent knowledge of both the business and the wider industry.

Brian, supported by our senior management team has overseen a year in which we reinstated the dividend, successfully re-launched in the newly regulated Spanish market – quickly achieving the number 2 position - launched a new casino front end, expanded our mobile platform, and established a strong US-facing position, to name but a few highlights.

One of our core strengths is offering our customers exactly what they want, and our ability to do this has been demonstrably successful with growth across most of our business lines. Another competitive advantage is the quality and capabilities of our technological platform, which allows us to tailor our marketing to individuals and to target our products in an efficient manner. We have continued to focus on new regulatory horizons, and the success of our poker offering in Spain shows the benefit of being ready for a new market opening. We are well placed to repeat this success as other markets regulate.

Financial Results and Dividend

We have achieved record results this year. The benefits of continued product development and cost-effective customer acquisition have resulted in a significant increase in the Group revenue to US$376 million, a 13% uplift (2011: US$331 million). Adjusted EBITDA* was US$67 million (2011: US$56 million). As at 31 December 2012 the Group had US$82 million of cash and cash equivalents and US$49 million liabilities to customers.

Given the strength of our financial performance the Board took the decision to restore dividend payments at the half year and an interim dividend of 2.5c per share was paid. Taking into account the strong performance of the business and lack of dividend in 2011 the Board is recommending a final dividend comprising 4.5¢ per share (which together with the interim dividend equals 7.0¢ per share in accordance with our pay-out policy set out at the time of our 2005 flotation) and an additional one-off 2.0¢ per share, bringing the total for the year to 9.0c per share.

People

The record performance that we have achieved this year would not be possible without our staff. Across the world, 1,600 people strive to make our strategy come to life and it is their commitment, passion and ambition that results in the ultimate success of our business.

Outlook

We have the right strategy and are executing it well. As we did with Spain we have invested in and prepared the platform in readiness for US entry and, following very positive recent regulatory movements in New Jersey and Nevada, we look forward to an exciting future.

Richard Kilsby
Chairman

* As defined in the table set out on the Enhanced Business review.

Chief Executive's Review

Introduction

I am delighted that, in the first year of my tenure as Chief Executive, the Group has delivered its strongest performance to date in our B2C line of business and a solid performance in B2B. This excellent performance has been driven by the successful development of our products, including the launch of Casino 50, our focus on customer acquisition and retention, and the continued delivery of superior customer service and a value for money offer.

Implicit in our strategy was the desire to improve margins, therefore we are delighted to have made further improvements in the year, particularly as we have incurred higher gaming duties compared to the previous year and we have continued to invest in our business. As we entered regulated markets we committed US$131 million to marketing spend which resulted in marketing ratio to revenue of 35%, slightly higher than that of last year, 31%.

Most importantly, we have delivered an adjusted EBITDA[1] of US$67 million, a 20% increase on last year. This represents an Adjusted EBITDA[1] margin increase from 16.8% to 17.8%. At the year end, we had US$82 million of cash, of which US$32 million was available for general corporate purposes, having during the year paid US$11 million of retroactive duties to the Spanish government and settled for US$37 million the final consideration on the Wink Bingo acquisition. Given the strong cash generation during the year the Board of Directors reinstated the dividend at the half year, declaring an interim dividend of 2.5¢ per share that was paid on 18 October 2012. Taking into account the strong performance of the business and lack of dividend in 2011 the Board is recommending a final dividend comprising 4.5¢ per share (which together with the interim dividend equals 7.0¢ per share in accordance with our pay-out policy set out at the time of our 2005 flotation) and an additional one-off 2.0¢ per share, bringing the total for the year to 9.0¢ per share.

2011 was about going back to basics, and 2012 has focused strongly on preserving and enhancing our technical edge. Structurally, the Group is now managed into two business lines, B2C and B2B, whereas B2C is further managed in product groups (for example, Poker/Casino) rather than by service areas (for example, marketing), which has enhanced our focus and allowed us to utilise our technological and analytical strength through a unified approach to product growth. Combining these disciplines and bringing our analytical strengths to bear at all stages has led to improved new product development, followed up by targeted, personalised and data driven marketing and CRM campaigns, all of which in turn lead to maximising player lifetime value. This concentrated focus on our core strong analytics and marketing capabilities, has maximised their benefits across the business. It is these fundamental competencies together with our exceptional product platform and back office capabilities that have enabled us to successfully compete with and surpass our competition.

[1] As defined in the table set out on the Enhanced Business review.

Building on our Strengths

Despite the evolving challenges of the market place in which we operate, our strategic direction remains constant.

Our strategy in terms of the customer proposition is clear – high quality products with precision targeted marketing to attract higher volumes of lower spend, more casual gamers, all of which is supported by exceptional customer service.

Early in 2012, we launched Casino 50, our new casino front end. This is a revolutionary multi-software platform, delivering, compared to previously, a much more exciting and interactive experience to our customers. It has been received well by players, and we are now beginning to see the fruits of our labour. Our Poker business continues to grow, with record breaking revenues of US$88 million and a 31% increase in active players compared to last year. We remain in the top 5 in terms of global liquidity, as reported by PokerScout. This product group is our star performer and we deservedly won the highly regarded eGaming Review Poker Operator of the Year award in November.

Within our technology infrastructure, we have created an in-house games studio, designed to develop our own "home bred" slots games. We have launched 10 of these slots games during the year of which Elm Street, with stunning graphics, was the most popular. This demonstrates the company's desire to distance itself from other operators and provides a unique offering to our customers in an area in which we control all of the elements required for our on-going success.

The Bingo sector remains challenging and this now mature market has become highly competitive. However, we remain one of the largest networks in the UK, holding our own against highly aggressive competitors, and we will continue to drive this offering and further integrate the platform into the Group's state of the art back office, allowing all the benefits of that to flow through to our bingo offering. In December we announced an agreement with Facebook to launch real-money products the first of which is Bingo Appy, offering 90 ball, 75 ball and 5 line bingo including a wide range of slots and instant games. To date we are seeing strong customer interest, but it is too early to predict the ultimate success of this new market.

Sport remains an important part of our product suite and one which continues to offer opportunities. Targeted marketing has helped to increase revenue year on year and we have seen success in our mobile strategy, with 30% of revenue generated through our dedicated 888Sport app. We are working closely with our partners and assessing options through which we can provide 888Sport with a genuine competitive edge. A strategic review is underway that will ascertain the best way of fulfilling this aim.

During the year we have made significant progress in newly regulated markets. In the summer we saw the opening of the Spanish market, albeit three months later than was planned given the delayed introduction of the new regime. We had adapted our software well in advance of licensing, and following the retroactive duty payment we were granted our license on 1 June. After effectively and efficiently migrating customers to the regulated environment we quickly built market share, with our poker offer becoming number two in the Spanish market with 888poker.es delivering more than 20% market share. This was achieved by calculated marketing investment, and further shows the strength of our management capabilities in understanding new markets, underpinned by the efficiency of our customer acquisition strategy.

Proving just what an opportunity regulation can provide for 888, the end result is that poker revenue generated since regulation is more than double that pre-regulation, even with the deduction of gaming duty. We are encouraged by this market, and we will invest in order to grow this significant business.

The Italian market has also proved to be successful. Initially launching a brand new Casino offering, designed specifically for Italy, in the second half of 2011 with cautious marketing spend, the launch achieved very pleasing results. The decision by the Italian regulator to allow slots from December 2012 has bolstered our offering and allowed us to introduce our unique games, alongside the traditional Casino products. This has resulted in player numbers more than doubling compared to December 2011.

In Dragonfish, we have now completed the rationalisation of smaller unprofitable licensees and hence revenue decreased marginally by 2%. Removing the burden of unprofitable contracts has helped us focus on our core strengths, concentrating our efforts on attracting large scale clients to our platform. In addition we have signed 12 new bingo skins. This approach has also released the resources to enable us to focus on the anticipated opening of the US market.

We currently operate Caesars Interactive Entertainment's (CIE) World Series of Poker online poker brand in the UK, a collaboration which received the approval of the Nevada Gaming Control Board and included a finding by the Control Board of suitability for 888. In January 2012 we announced a deal extending our relationship with Caesars that will see Dragonfish power a selection of CIE's established and recognised poker brands including the "WSOP" in the US, once online gaming is permitted under the new regulatory regime.

This non-exclusive agreement marked the first strand in our US online strategy and indicated the strong platform that we can use to sign with further potential US partners. Our objective in respect of the US is to become one of, if not the, largest providers of online operations and services in this market. We have a three part strategy, a business to business strategy where we are platform, software and back office providers, taking a revenue share; a strategic alliance where we partner with a supplier which allows us to reach regional casino outlets; and most importantly, a strong B2C offer where we bring all of 888's talents, expertise and strengths to bear on penetrating this exciting market.

In terms of contracts signed to-date, the CIE deal is the traditional B2B revenue share operation where we supply the technology and the services with our partner supplying their expertise and funds on marketing. Having land-based partnerships will be the key to unlocking access to regulated US states and it is worth remembering that Caesars operates casinos in Nevada, New Jersey and California. All of these are likely to offer online gaming upon the potential liberalisation of the market.

In July we announced an alliance with WMS Gaming Inc., which is one of the world's largest slot and games design operators with in excess of 250 secondary and tertiary casino customers. As one of the biggest suppliers of slot machines to hundreds of land based casinos in the US, this deal will enable WMS to offer an online product to all its customers utilising our state of the art poker platform.

The agreement will give the group a competitive edge and allow the launch of a real money offering concurrent with the finalisation of either Federal or State based regulation.

After the year end, we completed the last strand of our three part strategy, by entering into a joint venture agreement with global investment firm Avenue Capital Group, to launch and operate a comprehensive B2C gaming offering into the US. Avenue Capital Group has interests in various terrestrial casinos and entertainment companies making them an ideal partner for 888. The agreement will provide significant investment in marketing to take advantage of the regulating US gaming market, and we are enormously excited by the opportunities. A number of states are currently providing positive indications, with New Jersey legislators passing a bill legalising online gaming, while the Nevada Gaming Control Board recommended to the Nevada Gaming Commission the approval of the licensing of 888 as an Interactive Gaming Service Provider. The Commission hearing will be held on 21 March 2013.

As the first non-US online operator to be recommended, we are very well positioned in the US and the business foundations are now set. We are leveraging our existing infrastructure to penetrate the largest gaming market in the world and we are only waiting for the regulator to allow us to start working.

In parallel with our focus on building significant market share in regulated jurisdictions we have directed resources into the development of our mobile offering. 2012 was the year that the prevalence of smartphones and tablets finally led to the long-awaited “coming of age” of mobile gaming, and we can expect leadership in mobile to be a significant revenue and customer acquisition generator. The company has a devoted team concentrating on mobile applications and now has a comprehensive product offering across all major platforms, including both Apple and Android, tablets and smartphones. All applications are witnessing strong growth in usage, and we are confident that this medium will be earnings enhancing.

Our social gaming business has now been fully integrated into 888’s technological architecture, and the team is now working alongside our excellent product developers. It is clear that social networks are becoming an integrated part of online gaming however and, while it still remains a nascent industry, it is one in which we are well positioned to remain ahead of the curve. We will continue to review our product suite, and capitalise on opportunities such as Facebook real-money gaming and we expect to continue to progress in this area.

Regulation

Regulation of online gaming continued to be a key area of interest to 888 during 2012, as always, presenting both opportunities and challenges. During 2012 we acquired two new online gaming licenses – in Spain and in the German state of Schleswig-Holstein, adding to a growing list of local licenses held by the group. At the same time, the group remains committed to obtaining local licenses applicable to its operations in various jurisdictions of choice, presenting the potential for commercial growth.

As 2012 drew to an end, 888 was approaching the final stages of the Nevada licensing process, a lengthy exercise commenced in 2011. On 7 March 2013, the Nevada Gaming Control Board recommended to the Nevada Gaming Commission the approval of the licensing of 888 as an Interactive Gaming Service Provider and in connection therewith the licensing of its key executives and controlling shareholders. The Commission hearing will be held on 21 March 2013, and 888 is on the cusp of becoming one of the first international online gaming operators to commence operations in a US jurisdiction under a local license. In February 2013, New Jersey legislators passed a bill legalising online gaming, allowing land-based casinos in the state to apply for licences to offer casino and poker. This is expected to be enforced by the end of the year. With partnerships already in place, this positions 888 well. Other US jurisdictions are on the brink of introducing legislation to allow for the licensing of online gaming within their territories, developments that present tremendous opportunities for growth.

2012 saw a list of European jurisdictions either adopting new gaming laws, or being in the process of reforming their regulatory landscape. Though the European Commission has renewed its call for greater harmonisation between EU Member States in this area, regulatory regimes within the EU remain largely divergent, posing challenges for the Group. Naturally, the growing abundance of local licensing requirements is inevitably accompanied by the burdens of local taxation and costly compliance requirements. We continue to remain actively engaged in regulatory developments worldwide and seek the opportunities for growth presented by regulation while continuing to face the accompanying challenges.

A notable development likely to have a particularly profound impact on 888 in future years is the Bill presented in late 2012 by the United Kingdom Government, aiming to bring foreign operators under the licensing umbrella of the UK Gambling Commission, as well as exposing those operators to UK Gaming Duty. We will continue to closely follow developments on this front during 2013, taking measures to minimise the adverse impact that UK gaming reform could have.

Responsible Gaming

888 is dedicated to providing its customers with a responsible gaming environment. Hand in glove with our stated goal of providing our players with the most entertaining gaming offering experience is our firm commitment to help prevent compulsive usage and underage access of our gaming products. We have long been recognised as a market leader in this area, and continue to introduce innovative new measures to ensure that our products are used in a responsible way by the right people. More information could be found at our dedicated website, www.888responsible.com

2013 Focus

We see 2013 as a year of tremendous opportunity. We will continue to invest in our infrastructure, our product offer and in regulated markets.

We see high growth potential in Spain, where we intend to build on our strong position as we increase our marketing spend without diminishing its analytical, cost-effective, targeting. The introduction of live roulette and potentially slots will also provide growth opportunities, as witnessed by the introduction of slots in Italy at the end of 2012 which provided a catalyst for further growth in this important market.

We see our Spanish success as the blueprint for entry into other newly regulating markets. In the United States, where we are preparing for launch following positive regulatory changes, we will continue to invest in our technological platform, the cornerstone of our offer. In addition to being recommended for a licence in Nevada, we have been invited to apply for a licence in New Jersey, where a bill legalising online poker and casino has been passed.

In Poker we will continue to develop the platform and continue to create variation in the games available to our customers. Casino 50 continues to evolve, and we intend to remain at the top of the tree in terms of customer lifetime value. In Bingo we will develop more skins and expand our offer to ensure maximum coverage is achieved. Sport is already undergoing a strategic review and we intend to work with our existing and possibly new partners to ensure we optimise its true potential and have the ability to expand our brand into new regulated markets. Social media will continue to be an area in which we expand, and we will carefully monitor the success of these ventures.

All of these projects will undoubtedly require investment, alongside our intention to continue to invest in our technology and marketing expertise. This investment together with strong marketing campaigns and a push into new regulated markets, will have a short-term impact on margin growth. We remain focused on our strategy and believe that any incremental expenditure on our core business will ensure future growth and improved market share for all our brands.

Despite success to date, we do not believe we have yet got close to reaching full potential with our mobile offering. There is a significant opportunity as we increase the breadth and quality of our dedicated apps and roll them out across the app stores, while also making certain that the performance of our traditional products is maximised on whatever medium our players favour.

Outlook

We are well placed for the future and believe we have the right products, the right technology, and best in breed analytical marketing to provide sustained growth and increased market share. We also have a highly talented and dedicated workforce, and I would like to thank our staff for helping us achieve these excellent results. We are confident of delivering further value to our shareholders in the future.

Brian Mattingley
Chief Executive

Enhanced Business review

Financial Review

Financial Summary

	Year ended 31 December 2012[1]	Year ended 31 December 2011[1]	Change
	$ million	**$ million**	
Revenue			
B2C			
Casino	165.5	148.0	12%
Poker	87.5	60.6	44%
Bingo	51.8	54.0	(4%)
Emerging Offering	25.0	21.6	16%
Total B2C	**329.8**	**284.2**	**16%**
B2B	**46.0**	**47.0**	**(2%)**
Revenue	**375.8**	**331.2**	**13%**
Operating Expenses[2,3]	113.5	108.6	
Gaming duties[4]	11.5	7.3	
Research and Development Expenses	27.2	29.9	
Selling and Marketing Expenses	131.2	102.3	
Administrative Expenses [3,5,6]	25.6	27.5	
Adjusted EBITDA	**66.8**	**55.6**	**20%**
Net Finance income (expenses)[7]	1.9	(13.1)	
Depreciation and Amortisation	(14.8)	(13.0)	
Adjusted Profit Before Tax [3,4,5,6,8]	**53.9**	**29.5**	**82%**
Adjusted Earnings Per Share [3,4,5,6,8]	**13.9¢**	**7.4¢**	**88%**

Reconciliation of Operating Profit to Adjusted EBITDA	**Year ended 31 December 2012[1]**	**Year ended 31 December 2011[1]**
Operating profit	**36.9**	**14.6**
Depreciation	9.2	9.0
Amortisation	5.6	4.0
Restructuring costs	-	4.9
Retroactive duties and associated charges	11.1	-
Share benefit charges	1.7	2.4
Impairment charges	2.2	20.7
Adjusted EBITDA	**66.8**	**55.6**

[1] Totals may not sum due to rounding.
[2] Excluding depreciation of US$9.2 million (2011: US$9.0 million) and amortisation of US$5.6 million (2011: US$4.0 million).
[3] Excluding restructuring costs of nil (2011: US$4.9 million out of which US$1.0 million related to Operating expenses and US$3.9 million to Administrative expenses).
[4] Excluding retroactive duties and associated charges of US$11.1 million (2011: nil)
[5] Excluding share benefit charges of US$1.7 million (2011: US$2.4 million)
[6] Excluding impairment charges of US$2.2 million (2011: US$20.7 million).
[7] Comprising Finance income equal to US$4.6 million (2011: US$0.2 million) net of Finance expenses equal to US$2.7 million (2011: US$13.3 million).
[8] Excluding movement in contingent and deferred consideration of US$2.0 million (2011: US$4.2).

Financial Results

General

888 delivered another record performance in 2012 with a revenue increase of 13% to US$376 million (2011: US$331 million), particularly impressive given the strong comparatives to the prior year. Growth was driven by our B2C line of business with a 16% revenue increase, in turn lead by strong Poker growth of 44% and Casino at 12%. At the same time B2B almost maintained its prior year revenue with a 2% decrease.

Adjusted EBITDA increased 20% to US$67 million (2011: US$56 million), Adjusted EBITDA margin increased to 17.8% (2011: 16.8%) despite the payment of additional US$4 million gaming duties in regulated markets, Adjusted Profit before tax[1] increased 82% to US$54 million (2011: US$30 million) and Adjusted Earnings per share[1] increased 88% to 13.9¢ (2011:7.4¢). There was also strong operational cash generation of US$71 million (2011: US$79 million)

During the period the Group completed the settlement of the deferred consideration payable in respect of the Wink acquisition. The Group financial position remains strong with cash and cash equivalents at year end at US$82 million with no debt.

[1] As defined in the table set out on the Enhanced Business review.

Geographical Segmentation

888's turnover by geography is set out in the table below.

Revenue by geographical market:

	Year ended 31 December	
	Revenue	
	2012	Growth on prior year
	US $ million	
UK	**161.8**	6%
Europe (excluding UK)	**142.1**	14%
Americas	**38.2**	44%
Rest of world	**33.7**	23%
Total Revenue	**375.8**	13%

Growth was achieved in all geographical segments with the UK at 6%, Europe (excluding the UK) at 14%, Americas at 44% and rest of the world at 23%. The regulated European markets account for over 80% of our revenue, with success in Spain and Italy boosting the percentage of our revenue obtained from regulated markets.

Expenses

Over the last twelve months, we have made significant investment in regulated and regulating markets as well as in our technology and product innovation.

Operating expenses[1], which include mainly employee related costs, chargebacks, returned e-cheques and payment service providers ("PSP")' commissions, totalled US$114 million (2011: US$109 million) representing a lower proportion to revenues of 30% (2011: 33%) Staff costs[2] remained stable in absolute terms. Chargebacks[3] ratio remained stable at 0.9% (2011: 1.0%) as did PSP commissions ratio at 6.0% (2011: 5.9%)

Gaming duties, in respect of statutory payments levied in regulated markets reached US$12 million (2011: US$7 million) (excluding US$11.1 million back dated duties imposed in Spain). The increase in gaming duties is driven by revenue expansion in Spain and Italy and due to the fact that gaming duties were levied in Spain only since June 2011.

[1] As defined in the table set out on the Enhanced Business review.
[2] See detail in note 5 to the financial statements.
[3] See detail in note 4 to the financial statements.

Research and development expenses, net of software costs capitalised associated with our focus on preparing the platforms for the US market, regulated markets and on developing the mobile platform, were US$27 million (2011: US$30 million).

Marketing expenses during the year reached a record were US$131 million (2011: US$102 million) reflecting investment in the launch into regulated markets in Spain and Italy. This has resulted in an increase of marketing ratio to revenue to 35% (2011: 31%).

Administrative expenses[1] decreased to US$26 million (2011: US$28 million) reflecting reduced level of expenses associated with professional costs arising from regulated markets and the refocusing of the B2B business.

Share Benefit Charges

Share benefit charges were US$1.7 million (2011: US$2.4 million) the decrease is primarily as a result of the group selective equity award policy since 2010.

Finance Income (expenses)

Net Finance income[1] was US$1.9 million (2011: expense of US$13 million). Most of the difference is attributable to Wink related charges in 2011 and the fair value of operational hedging instruments in 2012.

Adjusted EBITDA

Adjusted EBITDA reached a record US$67 million (2011: US$56 million) again compared to a strong performance last year. Adjusted EBITDA margin was 17.8% (2011: 16.8%).

Taxation

The tax charge for 2012 was US$5.4 million (2011: US$3.9 million) representing a stable tax expense even though profit has increased significantly.

Earnings Per Share

Basic earnings per share was 10.2¢ (2011: 0.6¢).
Adjusted basic earnings per share[1] was 13.9¢ (2011: 7.4¢). We believe adjusted basic earnings per share excluding impairment charges, retroactive duties and associated charges, restructuring costs, share benefit charges and movement in contingent and deferred consideration better reflects the underlying business and assists in providing a clearer view of the performance of the Group.

Dividend

Given the strong cash generation during the year the Board of Directors reinstated the dividend at the half year, declaring an interim dividend of 2.5¢ per share that was paid on 18 October 2012. Taking into account the strong performance of the business and lack of dividend in 2011 the Board is recommending a final dividend comprising 4.5¢ per share (which together with the interim dividend equal 7.0¢ per share in accordance with our pay-out policy set out at the time of our 2005 flotation) and an additional one-off 2.0¢ per share, bringing the total for the year to 9.0c per share.

Cash Flow

The Group continues to generate substantial amounts of free cash with net cash generated from operating activities, after payment of retroactive duties and associated charges, reaching US$71 million (2011: US$79 million).

Balance Sheet

The Group’s balance sheet remains strong, with no debt and ample liquid resources. The Group's cash position as at 31 December 2012 was US$82 million (31 December 2011: US$76 million).

Balances owed to customers were US$49 million (2011: US$45 million).

[1] As defined in the table set out on the Enhanced Business review.

Operational Review

Growth Through Technological Innovation

Technology remains at the heart of 888, and it is our more than decade long history of building best in class back office systems and experience in online marketing that provides us with a real competitive advantage. With our own technology team, product development and dedicated marketing departments driven by advanced modelling and analytics working together under one roof, we control all of the ingredients required for our success. 888 is uniquely well placed to target investment and marketing spend through basing investment decisions on real-time comprehensive data analysis, thereby maximising return on investment.

Our powerful analytical tools drive the success of our products from development to marketing, and also help to provide the successful platform on which we are able to launch in newly regulated markets with impressive results. Each time that we launch a new offering into a new market, it is built on top of our proven platform, providing an excellent base for growth, with our technological systems allowing us to extract more from our investment and take advantage of a very powerful tool in online gaming.

888 will continue to invest in technology to produce best in class multi-regulation, multi-product and multi-platform offerings.

Continuing Innovation

An online gaming destination is successful through offering customers precisely what they want in an innovative and dynamic environment that encourages repeat visits. The enormous success of Poker 6 was the result of analysing customer requirements and providing the casual player an attractive offering of an inviting environment in which to enjoy the game with a more recreational feel, allowing players to place smaller initial stakes.

Following the successful changes to our poker product, the first quarter of 2012 saw the launch of our revamped casino offering, Casino 50, which reconstructed the casino platform to provide an industry leading casino product. The multi-software platform delivers a much more exciting and interactive experience to our customers. Utilising state-of-the-art web and design technology, the 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 favorite games. The intuitive features of the new 888casino adapts to each individual player, allowing players to engage online casino 'their way'.

Casino 50, fully localised with multi-currency support and available in 18 languages, offers a huge range of online casino games including unique and innovative slot games with branded themes and progressive jackpot as well as new versions of Blackjack and Roulette which are appealing for card & table players.

These unique and innovative slots are designed and created by 888's in house game studio, developed within our technological infrastructure. 888casino now offers over 200 games across multiple platforms including download, no download, tablets, mobile and more. Casino 50 has been received well by our customer base, and we have begun to see the fruits of our labour as revenues and first time depositors have increased, with the Casino also achieving one of the highest player life-time values in the industry.

Poker 6 continues to evolve and grow, with the modern, innovative and fun environment now providing a 1-click lobby as well as the opportunity to play via webcams, with A unique "Play with Friends" option giving the chance to do exactly that.

The success of 888poker received prestigious external recognition, with 888 being awarded the 2012 Poker Operator of the Year at the eGaming Review Annual Operator Awards.

Bingo continues to be a challenging and very competitive market, but we are proud to remain the number one online bingo platform worldwide, and we continue to ensure that the platform is fresh and relevant. The no download (Flash) Bingo application has proved popular, and over 100 available Instant Games boost player life-time value. Fully localised for a wide variety of languages and currencies, the platform has been created to ensure that it provides a turnkey solution for brands and companies looking to enter the Bingo market. Graphics, themes, animations, room introductions and the games themselves are easily adaptable and ideal for a third party operator to customise. The fact that 888 powers 25 networks and well over 100 skins, with thousands of active players on each network is the successful testimony to our approach.

888Sport remains an important part of the portfolio, and this area of the business is still growing, with particular success in increasing the prominence of mobile betting through launching apps across a comprehensive range of products. As a result, the percentage of revenues in Sport resulting from mobile devices reached 30% at the end of the year.

Continuing success in our B2C divisions will attract interesting B2B opportunities for Dragonfish. Our focus is on quality contracts and a widespread appraisal of all of our relationships was completed in 2012, resulting in a healthier bottom line. As can be seen from the growth in our B2C divisions, we have a proven back office capabilities, and this allows us to be selective with our pipeline and look for those deals that will have a significant bottom line impact.

Dragonfish's leading position in Bingo is not something that we take for granted. Despite the increasingly mature market and high levels of competition, our net gaming revenue in this area remains robust. This is the result of continuing innovation of the Bingo platform, supported by investment and product improvement adding better bonus management systems, and a wealth of new instant games – both those developed by 888games and cherry-picked best of breed external ones. As with all of our products, we have also maximised the performance of our Bingo offering on HTML5 and mobile devices.

The Platform of Choice for Regulated Markets

Dragonfish is also a key component of our regulated market strategy. Our best in breed B2C offering and investment in building the best possible platform for operation in new jurisdictions provides a strong incentive for companies to partner with Dragonfish in order to gain a foothold in newly regulating territories. An example of this is the CasinoFlex platform which offers Dragonfish's partners download and instant-play games along with the popular Live Casino product, seamlessly integrated into one complete gaming package, as well as providing comprehensive back office support.

Our success in Spain has not gone unnoticed and we have received a number of enquiries. The market is only now starting to show meaningful partnership potential and, consistent with our strategy for Dragonfish, we will only sign deals where there is a good economic rationale for so doing. Dragonfish remains active in looking for significant opportunities that arise in countries that are looking to regulate online gaming. The largest of these opportunities is clearly the United States.

Investment in the platform means that Dragonfish is ideally placed once the US market opens, and strategic deals have already been signed – with more still to come. We operate Caesars Interactive Entertainment's (CIE) World Series of Poker online poker brand in the UK, a collaboration which received the approval of the Nevada Gaming Control Board (which included a finding of suitability for 888 by the Control Board). In addition, Dragonfish will power a selection of CIE's established and recognised poker brands including the "WSOP" in the US, once online gaming is permitted under a new regulatory regime.

Following on from this a strategic agreement was signed with gaming content and slots supplier WMS Gaming Inc., the quoted US group which is a major supplier of electronic games content and slot machines to the land based gaming industry. Under the deal 888 will provide an online poker platform to WMS who will then market and distribute it to their land based casino customers. Initially the deal will involve play for fun but when the regulatory environment allows real money will be offered. Whilst the true value of these deals will only be realised if online poker legislation develops positively, they reflect our growing presence in the US market and the very strong position that we have there.

Success in New Markets

888 receives over 50% of revenue from regulated markets, with no other individual territory accounting for anywhere near 10% of the total revenue. This is a strong position from which to build and, as more territories regulate, it is a key priority of 888 to obtain and then build a significant market share. We had tremendous success in Spain in 2012, and how we did this is indicative of our wider strategy.

Prior to the opening of the market we adapted the software to meet the licensing requirements and, just as importantly, to provide an excellent gaming environment to attract the recreational Spanish player. On 1 June 2012 we were awarded a Spanish eGaming licence. After effectively and efficiently migrating customers to the regulated environment we quickly built market share, with our poker offer becoming number two in the Spanish market with more than 20% market share for 888poker.es. This was done without significant marketing investment, showing the efficiency of our customer acquisition. Revenue from poker in Spain is now double that earned from the pre-regulation market.

The Italian market has also proved to be successful. Initially launching a brand new Casino offering, designed specifically for Italy, player numbers almost doubled in the first half of 2012, and bets rose 70%. Having adapted our poker software, this was launched in the second half of the year, and the decision by the Italian regulator to allow slots from December bolstered our offering and allowed us to introduce our unique games such as Deal or No Deal and Big Brother. We will continue to analyse player trends in Spain and Italy, ensuring that our offering and marketing remain at the cutting edge.

We will also maintain our focus on being in the best possible position to take advantage of regulatory movements in the US, positioning 888 to become one of, if not the, largest providers of online operations and services in that market. Already, considerable work has been done to make certain that we have the best possible product ready for launch in the US, and our Dragonfish deals with CIE and WMS show that we are ideally placed to maximise B2B opportunities. We await any regulatory movements with considerable excitement.

New Platforms

After a number of false dawns, the irresistible rise of the smart phone and the increasing ubiquity of tablets meant that 2012 was the year that the mobile market truly took off as a significant revenue and customer acquisition generator. The rise in mobile usage has led us to redefine our marketing strategy, with a strand of our marketing devoted specifically to the mobile consumer.

What works on PC does not necessary work on mobile, and 888 has a devoted team concentrating on mobile applications. Benefitting as we do from having all technological development teams under one roof, all products are based on the same base 888 platform, allowing us to use all core functionality from our market leading traditional offering and only needing to invest once in the platform prior to utilising it across all consumer devices. All product groups are now available as apps on both Apple and Android, tablets and smartphones. All applications are witnessing growth in usage, and we are confident that this medium will be earnings enhancing as we move forward.

We will continue to invest in this area in order to develop the best possible applications, for all regulated jurisdictions, and maximise the performance of our product range across all mobile devices. The 888sport app is now responsible for 30% of our Sport revenue, and we expect growth in mobile usage across all areas to carry on at pace in 2013.

While still a nascent industry, social networks are becoming an integral part of online gaming. 888 has been a pioneer in offering social aspects as part of the user experience in our traditional gaming offerings, and exploring social gaming itself.

An important step was made in December with the signing of an agreement with Facebook to launch real-money products over the world’s most popular social network. The agreement allows 888 to offer bingo, casino and slot games through the Facebook platform in the UK. Developed by 888, the first app to launch was Bingo Appy, which has made an encouraging start. A casino offering including slots and other popular games will be launched in the first half of 2013.

Business Analytics

The successes detailed above are based upon 888’s technological strength and the efficient utilisation of this technology, directed by extensive analytics data. 888 operates as a technology marketing company, controlling all the required ingredients to our success, pushing the envelope with our product offering and marketing by using advanced modelling and analytics. They all feed one another. The fact that we have all three under the same roof makes us very effective.

The goals of our industry leading business analytics are simple – to maximise customer recruitment, increase customer lifetime value and minimise the cost per customer acquisition, thereby optimising return or marketing investment.

Having more than fourteen years’ experience in online gaming, and the best customer care application in the industry, 888 has at its disposal more than a decade of precious data. A highly trained and experienced team of research quantitative professionals are able to use this to boost the effectiveness of products, games, marketing campaigns, advertisements and payment systems.

Prior to any product launches our in house teams carry out extensive testing, with data analysis results indicating where sites can be improved and providing the best possible gaming experience.
It was this testing and analysis that formed the bedrock of the success of Poker 6, creating precisely the product that the market lacked and giving the recreational gamer the Poker experience that they had been missing.

The launch of a new product is of course not the end of the analysis, and every part of every page is studied to make sure that it provides the right experience to the player and the maximum possible value to 888. Poker 6 and Casino 50 are never considered finished products, but will continue to evolve to match consumer tastes.

Alongside product optimisation, the analysis of marketing campaigns is also of key importance to 888. With more than a hundred million dollars spent each year on marketing it is absolutely crucial to the success of the business that this money is spent wisely. Due to our exceptional analytics our spending is very surgical - we have the data and ability to be able to decide exactly where we want to spend our money, making us a lot more effective. At any given time we track and analyse hundreds of online and offline campaigns, thousands of active affiliates, and the performance of all products. This dynamic real time analysis allows the instant judging of marketing spend – from significant TV advertisements to single banner advertisements. If a new banner advert is launched that is not performing as hoped, it can be seen immediately and be tweaked or replaced. Thousands of promotional activities are designed and analysed, with the most profitable ones then recurring most often, being improved continuously.

As well as analysing marketing campaigns, customer behaviours are themselves analysed at every step of the playing lifecycle with 888, helping our customer relationship management (CRM) be amongst the best in the business. Our data mining capabilities help to predict a player's lifetime value within a short period of joining 888. These predictions, based on robust statistical modelling of millions of customers, help 888 to identify player characteristics and segment them according to churn type. Players are then targeted according to a tailored marketing plan from the CRM department, offering each individual the specific offers and experiences that will be most likely to appeal to them.

Combining data analytics with great marketing ideas therefore helps us to have a highly personalised relationship with customers, maximising the customer experience and lifetime value. Our customer engagement platform cherry-picks the most suitable client communications through analysing individual responses to them, be they regular newsletters, tailored advertisements, or one off promotional emails.

Our analytical data also allows the early identification of high-rollers. From the very beginning of their customer lifecycle this strong core of long term, dedicated customers, is provided with 888's exceptional VIP service. This service encompasses both on and offline activities, including 888 hosted exclusive activities at major sporting events and 5 star experiences.

The ongoing work of our business analytics team will make certain that all new products, marketing campaigns, and individual games will have the maximum benefit as we move into 2013.

ePayment and Fraud

In order to maximise revenue and convert browsers into players, it is important that payment processing is fast, easy to use and available in the format and currency customers desire. 888's leading payment processing capabilities support 22 languages and a wide variety of currencies, while more than 50 payment methods are supported. While it is vital that payment is as quick and easy as possible, we take our duty as a responsible operator very seriously and take comprehensive steps to minimise fraud.

888 has multiple acquiring relations with Tier 1 banks, level 1 Payment Card Industry compliance, and Visa and Mastercard accreditation. 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

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 8 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.es, a tailor-made offering for the newly regulated Spanish market, in June 2012, marked an additional milestone for the Group. To support this venture a wholly new customer support team was recruited and trained to handle all aspects of the operation, successfully establishing a range of new processes and procedures. With a well thought-out strategy, excellent migration and penetration plan, 888.es rapidly reached a significant market share in one of Europe's most important strategic markets.

In 2012 888's support teams converted a significant proportion of all incoming phone calls and relevant incoming chats to deposits; continuing to provide a convenient service to players and contributing to business growth. The expansion of live telephone and chat deposit capabilities to our Bingo offering proved to be highly successful, enabling the business to take advantage of new marketing opportunities and boost revenues.

The Telemarketing and Proactive Chat Department continued to deliver excellent performance as measured by the deposits generated by interaction with customers. Using compelling incentives and offering additional services to customers at critical conversion points, the Department increased its performance for the fourth successive year in all three key metrics - efficiency, productivity and revenue generated.

The optimisation and expansion of 888's Online Web Self-Service tool to regulated markets, 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.

The successful establishment of the WINK Bingo Operation in Antigua in May 2012, completed within a very tight timeline and to budget, was a major boost for the Group's customer service. Growth was prominent across most of our business lines in 2012 and with this a substantial, business critical, increase in active players. Achieved with little to no disruption for our customer base, the new operation allowed us to handle the significant increase in the volume of incoming queries into our support centres in 2012.

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 2012. Throughout the year, we further improved the handling of customer interactions by prioritising inbound queries according to customer status and specified business priorities. In addition, the Department increased its social media presence and expanded the use of RightNow capabilities, adding alerts and various automated reminder protocols to enhance the customer experience.

Customer Satisfaction

888 continues to monitor 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 2012, the customary annual study conducted to benchmark 888's service level within its primary markets included English, German, Spanish and Italian speaking casino and poker players, as well as English speaking sport customers. 888 is pleased that, for the fourth year running, respondents from our main language markets gave their highest rating to the level of professionalism of our support representatives. The 2012 study, for the first time, also included our English speaking Bingo B2C and B2B players and provided invaluable insight into this segment of the industry.

Review forums, customer surveys and feedback analysis assisted the Department in the continual evaluation and refinement of the Online Help content. Enhancements of the visual representations of supplied information reduced text based materials, adapting to customer needs and increasing user satisfaction.

Regulation and General Regulatory Developments

As a business operating in a highly regulated environment and deeply committed to conducting its business in a lawful and compliant manner, 888 is heavily impacted by regulatory changes relevant to its business operations. Technological developments in online gaming have often preceded regulatory reform, and recent years have seen a constant effort by various jurisdictions around the world to bring laws governing gaming up to date to reflect present technology. The most significant developments in recent years have occurred in European jurisdictions, but similar evolution is now occurring in the United States and elsewhere around the world. The group continues to be an active and vocal supporter of the regulation of online gaming, and invests significant efforts in facing the various challenges posed by the ever growing and complex mosaic of divergent regulatory regimes relevant to its business worldwide. The following paragraphs summarize the main relevant regulatory developments of 2012.

European Jurisdictions

As the hopes for pan-European harmonization of online gaming laws waned during 2012, 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, Bulgaria and others have already adopted a regulatory regime governing online gaming. Other EU Member States, including Ireland, the Czech Republic, 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 June 2012 the group was issued an online gaming license by the Spanish gaming Directorate and launched its licensed casino and poker offering in that jurisdiction. The Spanish authorities have announced their intention to expand the scope of gaming variants available to licensed operators during 2013.

Italy, where the group holds an online gambling concession, introduced new legislation in 2012 expanding the scope of licensable online activities to include online slots. The group has updated its Italian licence concession in accordance with this new legislation and launched the new games in December 2012.

During 2012, Germany adopted a new Inter State Gambling Treaty and introduced federal duty on sports betting, applicable to all operators accepting sports wagers in Germany. The regulation of online gaming itself in Germany continued to be characterized by legal ambiguity and chaos during 2012. Despite harsh criticism by the EC, the new Inter-State Gambling Treaty, was signed and approved by the German federal states, entered into force in July 2012 and introduced a very limited online sports-betting regime, allowing for no more than 20 licencees and echoed the online gaming ban contained in the previous treaty. Towards the end of 2012, various German courts expressed doubts regarding the validity and enforceability of the new treaty, and litigation on this matter is expected to carry into 2013.

Conversely, the German state of Schleswig-Holstein introduced its own regulatory and licensing regime for online casino games and sports betting. Despite having received a large number of applications for licensure under this legislation, a change of government in that state was followed by an announcement indicating the new administration's desire to repeal the law and align the state with the treaty adopted by the other German states. Due to legal difficulties and delays in the repeal of the existing law, the Schleswig-Holstein regulator ultimately issued licenses to qualified applicants, first for sports betting only, and later for casino licenses. The group was issued both a sports betting license and an online casino license by the Schleswig-Holstein authorities during 2012. However, there remains a certain degree of legal uncertainty surrounding the ability of Schleswig-Holstein licensees to accept players throughout Germany under that license. 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 licensees 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. It is however noteworthy that the issuance of online gaming and betting licenses by Schleswig-Holstein has exacerbated doubts regarding the validity of the Inter State Gaming Treaty (as expressed in comments made by various German courts in the latter half of 2012).

In early 2013, the Parliament of Schleswig-Holstein, with a single vote majority, repealed the state's Gaming Act, and voted to join the other 15 States' Inter-State Gaming Treaty (though the licenses already issued under the repealed Act will remain in force for the duration of their 6-year term). Concurrently, the German Federal Court of Justice, noting doubts regarding the compatibility of the current German regulatory regime with EU law, referred the matter for adjudication by the European Court of Justice. In practical terms, this ruling makes it unlikely that lower German courts will take a more definitive approach regarding the validity of the regime until the issue has been ruled on by the ECJ, and the vagueness regarding the validity of the current regime is likely to persevere for quite some time.

The end of 2012 saw the UK evaluating its online gaming regime. On 3 December 2012, the UK Department for Culture, Media and Sport (DCMS) published a draft bill to amend the 2005 Gambling Act. The bill proposes subjecting online gaming operators whose services are accessible in the UK to the licensing requirements applicable to UK-based operators, while abolishing the right of EU/EEA based operators to advertise their services in the UK without a UK gaming license. Under the current regime, only operators whose online gaming equipment is physically located in the UK are required to obtain a UK gaming license; furthermore, operators licensed in the EU/EEA or in a white-listed jurisdiction, such as Gibraltar, 888's home jurisdiction, are legally allowed to advertise their services in the UK. The new bill proposes abolishing these two provisions by stating that "remote gambling" that is "capable of being used" in the UK, may only be conducted under a UK gaming license; similarly, such "remote gambling" may only be advertised in the UK if it is conducted in accordance with a UK gaming license. The bill has been placed before Parliament, where the ordinary legislative process will commence. The proposal indicates a timeline for the reform which is commensurate with the 2013 budget and implementation of the new regime is anticipated in December 2014. The group is presently assessing the legal impact such a change could have on its interaction with customers in the UK.

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 2011 Greek legislation (which has not yet been enacted) 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. In late 2012, and as part of the Greek Government's plans to privatize the state owned betting monopoly (OPAP), the Government granted OPAP a 10-year monopoly on sports betting and a 20-year monopoly on VLT operations. Consecutively, the Greek Gaming Commission announced its intention to generate a blacklist of unlicensed operators active in the Greek market; however, due to severe criticism of this move, the blacklisting process has been indefinitely put on hold. In early 2013, the ECJ ruled that the monopoly granted under Greek law to OPAP may be in breach of EU law, returning the matter to the Greek courts for final determination. A final ruling invalidating OPAP's monopoly could have a profound impact on the regulatory regime applicable to gaming (both online and land-based) in Greece.

Belgium's licensing regime for online gaming activities became effective in early 2012 after a year of "temporary test permits" granted to selected operators. Belgian online gaming 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.

Both Hungary and Romania amended their gambling laws during 2011 and introduced limited regulatory regimes governing online gaming. The implementation of these new regulatory regimes was delayed in anticipation of the publication of necessary secondary legislation. Neither regime was launched during 2012, and both jurisdictions have indicated that they intend to reform the 2011 laws to accommodate a more liberalized licensing approach.

Bulgaria adopted a new gaming law, including a liberal licensing regime for online gaming, which came into effect in mid-2012. Regulations to implement the online gaming aspects of the bill are anticipated in early 2013, at which time the licensing process under the new law will commence.

The newly elected government of The Netherlands has announced its intention to continue efforts by the previous administration towards liberalization of the country's regulatory regime applicable to online gaming. In late 2012 an agreement was reached with the Dutch lottery monopoly, securing the latter's support for liberalization of the online market as part of a broader reform of gaming laws. The Group maintained close contact with the Dutch authorities during 2012, providing information and making proposals with regard to the anticipated reform based on its experience from other regulated markets. The Group will continue to engage with the Dutch Gaming Administration during 2013, with the hope that the anticipated reform will accommodate a vibrant and commercially viable online gaming market in the Netherlands.

Also in late 2012, the authorities of the Czech Republic announced their intention to redraft a bill aimed at reforming the country's gaming laws (after a previous version was rejected by the European Commission). The Group remains hopeful that these efforts will result in liberalization of the Czech gaming market, allowing the Group to obtain a license in this jurisdiction as well.

The Government of Sweden has also announced that it is drafting legislation to liberalize the country's online gaming market (currently reserved to the local lottery monopolists).

Developments also occurred on the pan-European level. Following the public consultation launched by the European Commission's ("EC") Green Paper on online gaming in 2011, the European Union Internal Market and Services Commissioner released in October 2012 an action plan on the regulation of Europe's online gambling industry. Falling short of proposing harmonization of the laws governing online gaming throughout the Internal Market, the action plan includes a series of initiatives planned for the following two years and aims at clarifying the regulatory landscape governing online gambling and encouraging cooperation between EU Member States. Most notably, the Commission has proposed the adoption of a comprehensive set of common principles aimed at creating a safer online gaming market in the EU. The action plan lists the following five priority areas: (1) compliance of national regulatory frameworks with EU law; (2) enhancing administrative cooperation; (3) protecting consumers and citizens; (4) preventing fraud and money laundering; and (5) safeguarding the integrity of sports and preventing match-fixing. To promote the above, the Commission has stated it will establish an expert group to facilitate exchanges of experience on regulation between Member States. 888 submitted a position paper in the context of the consultation process, also addressing the issues above, where the group already has well developed and robust policies and systems in place. The Commission has also planned to send requests for information to Member States against whom complaints were registered and infringement actions were commenced since 2008 in order to obtain an update on the latest developments in national legislation.

USA

Federal legislation governing online gaming (most likely online poker, initially) remains the less likely possibility in 2013. Late 2012 saw consensus between Senator Harry Reid (long time supporter of online poker legislation) and Senator Jon Kyl (who has traditionally objected to federal legislation condoning online poker) who together proposed a draft bill to regulate online poker on a federal level. However, the year ended without the bill having been formally introduced to Congress. It is yet to be seen whether Senator Kyl's retirement from the US Senate in early 2013 will affect the likelihood of a new federal online poker bill, and whether the newly elected US administration will pursue initiatives aimed at regulating online gaming on the federal level. As noted below, various US states have embarked on independent initiatives to regulate online gaming within their territories, and the possibility of inter-state compacts is not to be ruled out. The Group remains hopeful that these developments at state level will ultimately encourage federal legislation aimed at regulation of the industry on a national level.

The end of 2011 saw publication of the US Department of Justice's memorandum reversing the Department's long-standing position regarding the scope of the Wire Act. The Department's conclusion 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 licensed state lotteries, motivated public discussions and legislative initiatives in various US jurisdictions, with the aim of regulating intra-state online gaming.

The State of Nevada implemented, during 2011, a new regime governing intra-state interactive poker. The newly introduced Nevada regime allows licensed 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. On 7 March 2013, the Nevada Gaming Control Board recommended to the Nevada Gaming Commission the approval of the licensing of 888 as an Interactive Gaming Service Provider, manufacturer and distributor, and in connection therewith the licensing of its key executives and controlling shareholders. The Commission hearing will be held on 21 March 2013. By securing the Board recommendation, the Group continues to pioneer the Nevada online gaming market. Furthermore, a bill passed by the Nevada legislature in early 2013 could pave the way for Nevada to compact with other jurisdictions towards cooperation (and possibly – pooled liquidity) in connection with Interactive Gaming, a development the group strongly supports and will continue to assess as developments occur.

Late in December 2012 the New Jersey legislature voted in favour of a bill that would authorize Atlantic City casino licensees to offer casino games via the internet to players located in the borders of the state. The new bill only allows intrastate Internet gaming, but it provides that interstate gaming may occur in the future. Unlike other US jurisdictions whose online gaming laws are restricted to specific gaming variants, the law passed by the New Jersey legislature would allow licensees to offer online the full range of gaming services available under state law, to customers within the state. At the close of 2012, the bill awaited approval by the Governor (a previous similar bill was vetoed by the Governor in 2011).

Governor Christie conditionally vetoed the bill in early 2013, and in February 2013 the bill was amended to reflect the Governor's conditional veto and was subsequently signed into law by the Governor. Following passage of the law, the NJ regulator will adopt regulations to develop the regulatory framework and is expected to issue licenses during 2013.

Other states also made initial steps towards regulating intrastate online gaming. In June 2012, a bill authorizing Internet gaming within the state borders of Delaware was signed by the Governor. The new law allows for an Internet lottery to be offered and administered through the Delaware Lottery. Internet table games and video lottery games will also be offered via a website or websites branded and promoted by the state's three racetrack casinos, sharing one technology platform. Sale of Internet ticket games, meanwhile, will be conducted by the Delaware Lottery Office. The new law only allows intrastate Internet gaming, but it provides that interstate gaming may occur in the future.

Also in December 2012, California Senator Wright introduced an Internet gaming bill which would legalize intrastate Internet poker. This bill is identical to a previous version introduced by the same senator in early 2012 which had been withdrawn due to anticipated political difficulties.

Bills introducing online gaming regimes in Hawaii, Iowa, Illinois, Connecticut, Mississippi, Pennsylvania, Ohio and Washington D.C. failed to pass.

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

Other Developments

Several Canadian provinces continued to examine possibilities for the regulation of online gaming at the provincial level, through the existing lottery corporations. The most significant development occurred in the province of Ontario, which published a tender seeking potential partners to operate an online gaming platform on behalf of the Ontario Lottery and Gaming Corporation.

In Australia, a proposal was published in late 2012 recommending that the government embark on a 5-year online poker "trial". Resistance within the Australian Parliament remains vocal, and the likelihood of significant change prior to national elections late in 2013 seems unlikely.

Finally, the massive growth in social-network based gaming in recent years has prompted interest and attention from various regulators. While some spokespersons have specifically called for this industry to be brought under the scope of real-money gaming regulation, other regulators (most notably the UK Gambling Commission) have called on the industry to "self regulate" in a responsible manner, so as to mitigate any potential adverse impacts of social gaming on vulnerable audiences (primarily minors). The growing importance of social gaming to the industry at large, and to the Group in particular, renders this an important focal point for 888 in 2013.

Corporate Social Responsibility

As a global leader in online gaming entertainment, 888 is committed to a standard 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 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 have taken rigorous steps at all our online sites to prevent underage activity.

For any customers who suspect they have a problem, our Director of Responsible Gaming and our well-trained staff provides individual assistance that is considerate, supportive, and helpful.

Environment

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

- **Energy consumption:** 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. All 888's redundant IT equipment is now recycled.
- **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 the state of the art technology to help meetings occur remotely.

Community

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 charitable donations and long standing community involvement in our key areas across the world.

888's Annual Charity Weekend resulted in a donation of US$24,000 to Bliss, the UK charity working to provide the best possible care and support for all premature and sick babies and their families.

Responsible gaming

Our values place the community and the customer at the centre of all our endeavours. 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 all our staff in how to provide a safe gaming experience. Our training program incorporates methods and techniques to help our employees recognise and take appropriate actions if they identify compulsive or underage activity.

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 players who are worried about their gaming 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 play pattern by self-limiting the amounts they deposit per day, per week or per month.
- Self-exclusion: A player 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 1 day to 6 months. During this period, 888 blocks the account and no promotional e-mails are sent to the client.

Protecting minors

Underage activity on our sites is prohibited and 888 takes the matter of underage 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 underage activity 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.

Risk Report

The Group operates in a dynamic business environment. In addition to the day-to-day commercial risks faced by most enterprises such as fraud and theft, 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. In addition, a number of jurisdictions have regulated online gaming, and in many of those jurisdictions the Group holds licenses. However, in some cases, lack of clarity in the regulations, or conflicting legislative and regulatory developments, mean that the Group may risk failing to obtain an appropriate license, having existing licenses adversely affected, or being subject to other regulatory sanctions. Furthermore, legal and other action may be taken by incumbent gaming providers in jurisdictions which are seeking to regulate online gaming, in an attempt to frustrate the grant of online gaming licenses to the Group. 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 the 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 form part of the Group’s approach to ensuring 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 disaster recovery site to ensure full redundancy and operation availability. All critical data is replicated to the disaster recovery site and stored off-site on a daily basis. In the event of loss of functionality of the Group’s main IT systems, the business can be fully operated through the resources available at the disaster recovery site.

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 gaming 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 and is available at www.frc.org.uk. A new edition of the Code was published in September 2012 and will apply to the 2013 reporting period.

Statement of Compliance

The Board remain committed to the principles of corporate governance in the Code which it considers to be central to the effective management of the business and to maintaining the confidence of investors. This report explains how the Company has applied the main principles of the 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 Chief Executive'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 2012, the Board consisted of six Directors (five Directors following Gigi Levy's resignation from the Board as of 31 May 2012), as follows: two independent Non-executive Directors, one Non-independent Non-executive Director (none following Gigi Levy's resignation from the Board as of 31 May 2012), a Non-executive Chairman, and two Executive Directors, being the Chief Executive Officer and Chief Financial Officer. Brian Mattingley was appointed full-time Chief Executive Officer in March 2012. Prior thereto, following Gigi Levy's stepping down as Chief Executive officer as of 30 April 2011, Mr Mattingley had taken on certain executive duties. On 19 March 2012, the Board confirmed that John Anderson could be treated as independent, since 5 years had passed since he served as Chief Executive Officer, and the other criteria under Code provision B.1.1 and the Pensions Investment Research Consultants (PIRC) guidelines were fulfilled, in that Mr Anderson was considered independent and involved in none of the relevant conflicts regardless of the materiality thereof. The Board further resolved that its decision would be identified in this Annual Report.

Brian Mattingley was previously the Senior Independent Director and was appointed full-time Chief Executive Officer in March 2012. As such, the Board is presently in the process of appointing a new Senior Independent Director. The role of the Senior Independent Director is to provide a sounding board for the Chairman, to evaluate the Chairman's performance and lead the Board's succession planning, and to serve as an intermediary for the other directors where necessary.

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, and intends to appoint at least one new Non-executive Director during Q2, 2013. The service contracts of the present Non-executive Directors were renewed for an additional three year period on 1 March 2013. In doing so, the Company rigorously reviewed the performance of its Non-executive Directors, taking into account the need for progressive refreshing of the Board.

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 an established 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 has established a formal process for the annual evaluation of its performance, its committees and individual Directors. The evaluation process covers a range of issues such as Board processes, Board roles and responsibilities, Board agendas and committee processes. The internal Board evaluation relating to performance in 2012 was carried out in December 2012, and included evaluation of the performance of the board as a whole as well as evaluation of individual directors and the chairman. Pursuant to the evaluation, the Board was satisfied that the non-executive Directors continue to be effective and to demonstrate commitment to their role. The Board plans to meet six times a year. During 2012, the Board met five times. Set out below are details of the Directors' attendance record at Board and Committee meetings in 2012.

	Total number of meetings held during the year ended December 2012 and the number of meetings attended by each Director			
	Board	**Audit committee**	**Remuneration committee**	**Nominations committee**
Total held in year	5	1	1	1
Richard Kilsby	5	n/a	n/a	n/a
Brian Mattingley	5	n/a	n/a	n/a
Aviad Kobrine	5	n/a	n/a	n/a
John Anderson	5	1	1	1
Amos Pickel	5	1	1	1
Gigi Levy*	0	n/a	n/a	n/a

* Gigi Levy stepped down from the Board with effect from 31 May 2012.

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. The Non-executive Directors meet once per year without the Chairman present in order to appraise the performance of the Chairman and taking into account the views of the Executive Directors. It is part of the role of Senior Independent Director to lead this process, presently the Board is in the process of appointing a new Senior Independent Director. The Directors have wide-ranging business experience, and no individual, or group of individuals, dominates the Board's decision making.

The Board considers that John Anderson and Amos Pickel satisfy the independence criteria of the Code in 2012. 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 2012 are detailed in his biography. It is noted that Mr Kilsby resigned as a Non-executive Director of Tullett Prebon plc in 2012. 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 two independent Non-executive Directors: Amos Pickel (Chair) and John Anderson. The Board is satisfied that Amos Pickel has sufficient recent and relevant financial experience to Chair the Audit Committee. 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.

The Audit Committee assesses the effectiveness of the external audit process by establishing schedules and agendas for regular meetings with the auditors, supervising the audit function directly to ensure that the auditors are independent and objective in their findings, and working to ensure comprehensive audit coverage to meet the risks and demands posed by the Company’s business.

The appointment or reappointment of the external auditor is put to the vote of each Annual General Meeting. Prior thereto, the Audit Committee considers the auditor’s performance during the year, and forms a view as to whether to recommend that the present auditor be re-appointed or an alternative be proposed.

BDO LLP and BDO Limited have been the Company’s external auditors since 2003. Neither BDO LLP nor BDO Limited provides any material non-audit services to the Company. The Audit Committee seeks to ensure that the Company’s auditors are objective and independent by monitoring the appointment of the auditors for any non-audit work involving fees above US$0.1 million.

Nominations Committee

During the year, the Nominations Committee comprised two independent Non-executive Directors: Amos Pickel (Chair) and John Anderson. Brian Mattingley was appointed Chief Executive Officer in March 2012.

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.

During 2012, the Nominations Committee took steps to identify new Non-executive Directors, and it is intended to appoint at least one new Non-executive Director during Q2 2013. Furthermore, since the stepping down of the Company's previous Chief Executive Officer in April 2011, the Nominations Committee led the search for a new Chief Executive Officer with the assistance of an executive search firm. Pending such recruitment, Brian Mattingley was asked by the Board to become more involved in the day to day operations of the Company. In March 2012, Brian was asked to take on the role of Chief Executive Officer.

The Nominations Committee is also responsible for implementing the Board's policy on diversity within the scope of its mandate, including setting measurable objectives and monitoring progress on achieving such objectives. In considering new Board appointments, diversity is one of the criteria considered by the Nominations Committee.

Remuneration Committee

During the year the Company's Remuneration Committee comprised two independent Non-executive Directors: Amos Pickel (Chair) and John Anderson.

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 2012 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. Deloitte Limited (Gibraltar) was engaged in 2012 to carry out the Company's internal audit function, reporting to the Audit Committee. During 2012, Deloitte prepared a comprehensive risk report which was presented to the Board. Following consideration thereof, an audit plan for the coming 5 years was prepared and approved by the Board.

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 audit function.

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 2013 Annual General Meeting (scheduled to be held on 8 May 2013) 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 2013, 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 20% 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 2012 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 2012

	Note	Year ended 31 December 2012	2011
		US $ million	
Revenue	3	**375.8**	331.2
Operating expenses		**128.3**	122.6
Gaming duties		**22.6**	7.3
Research and development expenses		**27.2**	29.9
Selling and marketing expenses		**131.2**	102.3
Administrative expenses		**29.6**	54.5
Operating profit before impairment charges, retroactive duties and associated charges, restructuring costs and share benefit charges		**51.9**	42.6
Impairment charges		**(2.2)**	(20.7)
Retroactive duties and associated charges		**(11.1)**	-
Restructuring costs		**-**	(4.9)
Share benefit charges		**(1.7)**	(2.4)
Operating profit	4	**36.9**	14.6
Finance income	6	**4.6**	0.2
Finance expenses	6	**(2.7)**	(13.3)
Movement in contingent and deferred consideration	21	**2.0**	4.2
Share of post-tax profit of equity accounted joint ventures	13	**-**	0.1
Profit before tax		**40.8**	5.8
Taxation	7	**5.4**	3.9
Profit after tax for the year attributable to equity holders of the parent		**35.4**	1.9

	Note	Year ended 31 December 2012	2011
		US $	
Earnings per share	8		
Basic		**10.2¢**	**0.6¢**
Diluted		**10.1¢**	**0.6¢**

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

	Note	31 December 2012	2011
		US $ million	
Profit for the year		**35.4**	1.9
Actuarial losses on defined benefit pension plan	5	**(0.7)**	(0.4)
Total comprehensive income for the year attributable to equity holders of the parent		**34.7**	1.5

The notes below form part of these financial statements.

Consolidated Balance Sheet

At 31 December 2012

	Note	31 December 2012	2011
		US $ million	
Assets			
Non-current assets			
Intangible assets	11	**147.7**	141.9
Property, plant and equipment	12	**18.3**	17.1
Investment in equity accounted joint venture	13	**-**	1.2
Available for sale investment	14	**0.2**	0.2
Deferred taxes	15	**0.4**	0.4
		166.6	160.8
Current assets			
Cash and cash equivalents	16	**81.5**	75.9
Short term investments	17	**3.5**	6.0
Trade and other receivables	18	**33.0**	26.4
		118.0	108.3
Total assets		**284.6**	269.1
Equity and liabilities			
Equity attributable to equity holders of the parent			
Share capital	19	**3.2**	3.2
Share premium		**0.1**	0.1
Retained earnings		**144.9**	118.0
Total equity attributable to equity holders of the parent		**148.2**	121.3
Liabilities			
Current liabilities			
Trade and other payables	20	**85.4**	65.5
Customer deposits	22	**49.5**	44.9
Contingent and deferred consideration	21	**0.7**	37.4
		135.6	147.8
Non-current liabilities			
Share benefit charges - cash settled	24	**0.8**	-
Total liabilities		**136.4**	147.8
Total equity and liabilities		**284.6**	269.1

The notes below form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

	Share capital US $ million	Share premium US $ million	Retained earnings US $ million	Total US $ million
Balance at 1 January 2011	3.2	0.1	113.6	116.9
Equity settled Share benefit charges	-	-	2.4	2.4
Equity settled Share benefit charges (included within restructuring costs)	-	-	0.5	0.5
Issue of shares (See note 19)	-	-	-	-
Profit after tax for the year attributable to equity holders of the parent	-	-	1.9	1.9
Other comprehensive income for the year			(0.4)	(0.4)
Balance at 1 January 2012	**3.2**	**0.1**	**118.0**	**121.3**
Dividend paid			(8.7)	(8.7)
Equity settled Share benefit charges	-	-	0.9	0.9
Issue of shares (See note 19)	-	-	-	-
Profit after tax for the year attributable to equity holders of the parent	-	-	35.4	35.4
Other comprehensive income for the year			(0.7)	(0.7)
Balance at 31 December 2012	**3.2**	**0.1**	**144.9**	**148.2**

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.
Share premium — represents the amount subscribed for share capital in excess of nominal value.
Retained earnings — represents the cumulative net gains and losses recognised 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 2012

	Year ended 31 December		Year ended 31 December	
	2012	2012	2011	2011
	US $ million			
Cash flows from operating activities				
Profit before income tax	**40.8**		5.8	
Adjustments for:				
Impairment charges	**2.2**		20.7	
Depreciation	**9.2**		9.0	
Amortisation	**5.6**		4.0	
Interest received	**(0.3)**		(0.2)	
Interest expense	**1.1**		7.4	
Foreign exchange differences on deferred consideration	**0.5**		1.7	
Fair value movements on Foreign exchange derivatives	**(3.3)**		1.6	
Share of post- tax profit of equity accounted joint venture	**-**		(0.1)	
Movement in contingent and deferred consideration	**(2.0)**		(4.2)	
Share benefit charges	**1.7**		2.9	
	55.5		48.6	
Increase in trade receivables	**(2.9)**		(4.9)	
(Increase) decrease in other accounts receivables	**(0.4)**		2.8	
Increase in customer deposits	**4.6**		10.2	
Increase in trade and other payables	**18.9**		26.4	
Cash generated from operations	**75.7**		83.1	
Income tax paid	**(5.0)**		(4.4)	
Net cash generated from operating activities		**70.7**		78.7
Cash flows from investing activities				
Consideration paid on acquisitions (See note 21)	**(36.7)**		(46.1)	
Purchase of property, plant and equipment	**(10.6)**		(4.5)	
Decrease (increase) in short term investments	**2.5**		(5.1)	
Interest received	**0.3**		0.2	
Acquisition of intangible assets	**(0.3)**		(0.2)	
Internally generated intangible assets	**(10.5)**		(4.1)	
Net cash used in investing activities		**(55.3)**		(59.8)
Cash flows from financing activities				
Interest paid	**(1.1)**		(3.7)	
Dividends paid	**(8.7)**		-	
Net cash used in financing activities		**(9.8)**		(3.7)
Net increase (decrease) in cash and cash equivalents		**5.6**		15.2
Cash and cash equivalents at the beginning of the year		**75.9**		60.7
Cash and cash equivalents at the end of the year		**81.5**		75.9

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 2012 or the year ended 31 December 2011, but is derived from those accounts.

Statutory accounts for the year ended 31 December 2011 have been delivered to the Registrar of Companies in Gibraltar together with a report under section 10 of the Gibraltar Companies (Accounts) Act 1999. Statutory accounts for the year ended 31 December 2012 will be filed with Companies House Gibraltar following the Company's Annual General Meeting. The auditors have reported on both the 2012 and 2011 accounts and their reports were unqualified, did not draw attention to any matters by way of emphasis 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 re-domiciled 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, without any material change.

The financial statements are presented in US dollars (US$ million) because that is the currency the Group primarily operates in.

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) have been adopted by the Group with no significant impact on its consolidated results or financial position.

Amendments to IAS 12 - Deferred Tax: Recovery of Underlying Assets.
Amendments to IFRS7- Disclosures: Transfers of Financial assets

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 2012. The Group is currently assessing the impact 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).

IFRS 10 - Consolidated Financial Statements (effective for accounting periods beginning on or after 1 January 2014).

IFRS 11 - Joint Arrangements (effective for accounting periods beginning on or after 1 January 2014).

IFRS 12 - Disclosure of Interests in Other Entities (effective for accounting periods beginning on or after 1 January 2014).

IFRS 13 - Fair Value Measurement (effective for accounting periods beginning on or after 1 January 2013).

IAS 27 - Separate Financial Statements (effective for accounting periods beginning on or after 1 January 2014).

IAS 28 - Investments in Associates and Joint Ventures (effective for accounting periods beginning on or after 1 January 2014).

IAS 19 – Employee Benefits (effective for accounting periods beginning on or after 1 January 2013).

Amendments to IFRS 7 – Disclosures Offsetting Financial Assets and Financial Liabilities (effective for accounting periods beginning on or after 1 January 2013).

Amendments to IFRS 10, IFRS 11 and IFRS 12 - Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities (effective for accounting periods beginning on or after 1 January 2013). These amendments have 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).

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

Improvements to IFRSs. This annual improvement project clarifies the requirements of IFRS's and eliminates inconsistencies within and between standards. The relevant changes included amendments to IFRS 1 'First-time adoption of International Financial Reporting Standards', IAS 1 'Presentation of financial statements', IAS 16 'Property, plant and equipment', IAS 32 'Financial instruments' and IAS 12 'Income taxes'. These amendments have 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:

	Note
Taxation	7
Contingent consideration	21
Intangible assets	11
Impairment of Goodwill and intangible assets	11
Share-based payments	24
Contingent liabilities and regulatory compliance	28

Presentation of accounts

Following a review of the financial statements, the following amendment has been made to the consolidated balance sheet presentation. Cash deposits in accounts with restricted access, primarily in respect of regulated market requirements, have been included as short terms investments and the comparatives adjusted accordingly. The new presentation has no effect on net assets nor on the reported profit and loss and therefore a comparative prior year balance sheet for 31 December 2010 has not been presented.
The effect on the comparative cash flow has been to increase the cash used in investing activities by US$5.1 million, and therefore reduce the increase in cash and cash equivalents for the year by the same amount.

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 provided 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 after deduction of certain bonuses granted to customers and is measured at the fair value of the consideration received or receivable.

Revenue consists of income from online activities and that generated from processing customers' cross currency deposits and withdrawals, which is allocated to each reporting segment. Revenue from online activities comprises:

Casino and Bingo

Casino and Bingo online gaming revenue is represented by the difference between the amounts of bets placed by customers less amounts won.
Where the Group is using a third-party platform and is not deemed to be the principal the recognised income is the net revenue share earned from that activity.

2 Significant accounting policies (Cont.)

Poker
Poker online gaming revenue is represents the commission charged from each poker hand in ring games and entry fees for participation in Poker tournaments. In Poker tournaments entry fee revenue is recognised when the tournament has concluded.

Emerging Offerings
Revenue from Emerging Offerings is mainly comprised of Sportbook, Social games and third party platform based activity.

- Sportsbook online gaming revenue comprises net house win adjusted for the fair value of open betting positions.
- Social games revenue comprises the groups share from the sale of virtual goods to customers playing the Group's games.
- Revenue derived from using third-party platforms represents the Group's net revenue share from that activity.

B2B

Where the Group is considered to be the principal, income is recognised as the gross revenue generated from use of the Group's platform in online gaming activities with the partners' share of the revenue charged to operating expenses. In other cases income is recognised as the Group share of the net revenue generated from use of the Group's platform.
Recoupable advances received are carried at cost less recouped amounts and are treated as deferred income within current liabilities and released as they are earned in line with the policy above.

Operating expenses

Operating expenses consists primarily of staff costs, payment service providers' commissions, chargebacks, commission and royalties payable to third parties, all of which are recognised on an accruals basis, and depreciation and amortisation.

Administrative expenses

Administrative expenses consist primarily of staff costs, corporate professional expenses, all of which are recognised on an accruals basis, and impairment charges.

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).

2 Significant accounting policies (Cont.)

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 amortised 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.

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 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 three and five years, except for certain licence costs which are amortised over either the life of the licence, or up to 20 years, whichever is the shorter period. Previously certain licenses were deemed to have an indefinite life. This refinement of policy has no material impact on the financial statements.

Goodwill

Goodwill represents the excess of the cost of a business combination over the Company’s 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 charged 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.

2 Significant accounting policies (Cont.)

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 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).

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 recognised 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, and any charge or reversal of previous impairments is taken to the consolidated income statement.

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 instruments and are 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.

2 Significant accounting policies (Cont.)

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.

Short term investments

Short term investments are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. They are initially recognised at fair value, plus transaction costs directly attributable to their acquisition. They are subsequently carried at amortised cost using the effective interest rate method, less any provisions for impairment.

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.

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 progressive provision for jackpots. These amounts are repayable 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.

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.

2 Significant accounting policies (Cont.)

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

- **Equity settled**

Where the Company grants its employees or contractors shares, or 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. Market performance conditions are taken into account in determining the fair value at the date of grant.

- **Cash-settled**

For transactions treated as cash settled share based payment transactions, the Company recognises the services received, and a liability to pay for those services, as the employees render service.

Until the liability is settled, the Company remeasures the fair value of the liability at each reporting date and at the date of settlement, with any changes in fair value charged or credited to the income statement for the period.

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, 2012						
	B2C						
	Casino	Poker	Bingo	Emerging offering	Total B2C	B2B	Consolidated
	US $ million						
Revenue	165.5	87.5	51.8	25.0	329.8	46.0	375.8
Result							
Segment result before impairments					157.3	26.7	184.0
Impairments					(0.6)	(1.6)	(2.2)
Segment result					156.7	25.1	181.8
Unallocated corporate expenses[1]							144.9
Operating profit							36.9
Financial income							4.6
Financial expenses							(2.7)
Movement in contingent and deferred consideration							2.0
Share of post-tax profit of equity accounted joint ventures							-
Taxation							(5.4)
Profit for the year							35.4
Assets							
Unallocated corporate assets							284.6
Total assets							284.6
Liabilities							
Segment liabilities					46.5	3.0	49.5
Unallocated corporate liabilities							86.9
Total liabilities							136.4

1 Including share benefit charges of US$1.7 million charged to administrative expenses.

3 Segment information (cont.)

	Year Ended 31 December, 2011						
	B2C						
	Casino	Poker	Bingo	Emerging offering	Total B2C	B2B	Consolidated
	US $ million						
Revenue	148.0	60.6	54.0	21.6	284.2	47.0	331.2
Result							
Segment result before impairments					152.0	27.8	179.8
Impairments					(20.7)	-	(20.7)
Segment result					131.3	27.8	159.1
Unallocated corporate expenses[1]							144.5
Operating profit							14.6
Financial income							0.2
Financial expenses							(13.3)
Movement in contingent and deferred consideration							4.2
Share of post-tax profit of equity accounted joint ventures							0.1
Taxation							(3.9)
Profit for the year							1.9
Assets							
Unallocated corporate assets							269.1
Total assets							269.1
Liabilities							
Segment liabilities					39.1	5.9	45.0
Unallocated corporate liabilities							102.8
Total liabilities							147.8

[1] Including share benefit charges of US$2.4 million charged to administrative expenses and restructuring costs of US$4.9 million.

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 market

	Year ended 31 December, Revenue	
	2012	2011
	US $ million	
UK	**161.8**	153.1
Europe (excluding UK)	**142.1**	124.2
Americas	**38.2**	26.5
Rest of world	**33.7**	27.4
Revenue	**375.8**	331.2

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	
	2012	2011	2012	2011
	US $ million			
Europe (including UK)	**226.6**	228.5	**5.4**	3.3
Americas	**9.5**	-	**2.5**	-
Rest of World	**48.5**	40.6	**2.7**	1.2
	284.6	269.1	**10.6**	4.5

4 Operating profit

	Year ended 31 December,	
	2012	2011
	US $ million	
Operating profit is stated after charging:		
Staff costs (see note 5)	**80.8**	86.8
Audit fees to BDO LLP	**0.3**	0.4
Audit fees to BDO Limited	**0.1**	0.1
Other fees paid to BDO LLP- other assurance related matters	**0.1**	0.1
Depreciation (within operating expenses)	**9.2**	9.0
Amortisation (within operating expenses)	**5.6**	4.0
Chargebacks	**3.3**	3.4
Payment service providers' commissions	**21.7**	18.8
Retroactive taxes and associated charges	**11.1**	-
Restructuring costs[1]	**-**	4.9
Impairment costs (within administrative expenses – see notes 11 and 13)	**2.2**	20.7

[1] During 2011 the Group restructured its management team resulting in aggregated terminated staff and related costs of US$4.9 million for the year ended 31 December 2011 of which US$3.9 million were in relation to the former CEO. Total costs included US$0.5 million in respect of accelerated equity settled share benefit charges arising on termination.

5 Employee benefits

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

	2012	2011
	US $ million	
Wages and salaries	**80.6**	82.0
Social security	**3.3**	3.1
Pension costs	**4.9**	4.9
	88.8	90.0
Staff costs capitalized in respect of internally generated intangible assets	**(8.0)**	(3.2)
	80.8	86.8

In the income statement total staff costs, excluding share benefit charge of US$1.7 million (2011: US$2.4 million), are included within the following expenditure categories:

	2012	2011
	US $ million	
Operating expenses	**48.4**	49.1
Research and development expenses	**15.0**	19.6
Administrative expenses	**17.4**	18.1
	80.8	86.8

Average headcount number of employees by category:

	2012	2011
	Number	
Operations	**671**	593
Research and development	**224**	217
Administration	**115**	119
	1,010	929

At 31 December 2012 the Group employed 1,035 (2011: 932) staff.

Severance pay liability - Israel

The Group's employees in Israel are eligible to receive certain benefits from the Group in specific 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 2012 and 2011, respectively:

	2012	2011
	US $ million	
Severance pay liability (within trade and other payables)	**1.0**	0.6
Income statement charge	**2.8**	3.0
Actuarial movements on severance pay liability (included in statement of comprehensive income)	**0.7**	0.4

5 Employee benefits (Cont.)

Movement in severance pay liability:

Severance pay plan assets

	Year ended 31 December,	
	2012	**2011**
	US $ million	
At beginning of year	**8.4**	8.3
Expected return	**0.4**	0.4
Contributions	**3.0**	3.0
Benefits paid	**(1.7)**	(2.4)
Actuarial gain (loss) on assets	**0.1**	(0.3)
Exchange differences	**0.2**	(0.6)
At end of year	**10.4**	8.4

Severance pay plan liabilities

	Year ended 31 December,	
	2012	2011
	US $ million	
At beginning of year	**9.0**	8.6
Interest cost	**0.4**	0.3
Current service costs	**2.8**	3.1
Benefits paid	**(1.8)**	(2.5)
Actuarial loss on obligations	**0.8**	0.1
Exchange differences	**0.2**	(0.6)
At end of year	**11.4**	9.0

Severance pay plan trends

	Year ended 31 December,				
	2012	2011	2010	2009	2008
	US $ million				
Plan assets	**10.4**	8.4	8.3	6.8	4.2
Plan liabilities	**(11.4)**	(9.0)	(8.6)	(7.0)	(4.5)
Severance pay liability	**(1.0)**	(0.6)	(0.3)	(0.2)	(0.3)

Experience gains and losses on scheme assets and liabilities:

	Year ended 31 December,				
	2012	2011	2010	2009	2008
	US $ million				
On plan assets	**0.1**	(0.3)	0.2	0.9	0.2
On plan liabilities	**(0.8)**	(0.1)	(0.5)	(1.1)	(1.1)
	(0.7)	(0.4)	(0.3)	(0.2)	(0.9)

Employees can determine individually into which type of investment their share of the plan assets are invested, therefore the Group is unable to accurately disclose the proportions of the plan assets invested in each class of asset. Cumulative actuarial losses recognised in other comprehensive income amount to US$2.5 million (2011: US$1.8 million).

5 Employee benefits (Cont.)

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

	2012	2011
	%	
Discount rate (nominal)	**3.80**	4.34
Estimated increase in employee benefits costs	**3.82**	3.00
Voluntary termination rate	**70**	70
Estimated rate of return on assets	**4.34**	4.71
Inflation rates based on Israeli government bonds	**2.28**	2.19

6 Finance income and finance expenses

Finance income:

	Year ended 31 December,	
	2012	2011
	US $ million	
Interest income	**0.4**	0.2
Fair value movements on Foreign exchange derivatives	**3.3**	-
Fair value movements of foreign exchange derivatives on deferred consideration	**0.9**	-
Finance income	**4.6**	0.2

Finance expenses:

	Year ended 31 December,	
	2012	2011
	US $ million	
Interest expense on deferred consideration	**1.1**	3.7
Unwinding of discount on contingent and deferred consideration	**-**	3.7
Fair value movements of foreign exchange derivatives on deferred consideration	**-**	1.6
Foreign exchange losses	**1.6**	4.3
Finance expenses	**2.7**	13.3

7 Taxation

Corporate taxes

	Year ended 31 December,	
	2012	2011
	US $ million	
Current tax	**5.4**	3.7
Deferred tax	**-**	0.2
Taxation expense	**5.4**	3.9

7 Taxation (Cont.)

	Year ended 31 December,	
	2012	2011
	US $ million	
Profit before taxation	**40.8**	5.8
Tax at effective tax rate in Gibraltar (2012:10%, 2011: 10%)	**4.1**	0.6
Effect of overseas taxation	**2.3**	2.2
Effect of deferred tax originating in overseas jurisdictions	**0.1**	(0.1)
Permanent disallowable expenditure	**1.7**	3.2
Non-taxed income	**(3.7)**	(1.3)
Adjustments to prior years tax charges	**0.9**	(0.7)
Total tax charge for the year	**5.4**	3.9

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

Gibraltar - 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.

Israel - The domestic corporate tax rate in Israel from 2012 is 25% (2011: 24%). The company's Israeli subsidiary had entered into certain transfer pricing agreements with the Israeli Income Tax Commissioner, which were effective until the end of 2010. The subsidiary has recently concluded an assessment agreement with respect to all tax years up to 2011, and the directors have reasons to believe that the same principles will apply to the tax year 2012.

UK - 888's subsidiary in the UK pays corporate tax in the UK at the applicable rate of 24% (2011: 26%).

8 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 equity instruments granted, which are not included in the number of shares for basic earnings per share. Certain equity instruments have been excluded from the calculation of diluted EPS as their conditions of being issued were not deemed to satisfy the performance conditions at the end of the performance period or it will not be advantageous for holders to exercise it into shares, in the case of options. The number of equity instruments excluded from the diluted EPS calculation is 6,363,756 (2011: 4,870,226).

8 Earnings per share (Cont.)

	Year ended 31 December, 2012	2011
Profit from continuing operations attributable to ordinary shareholders (US$ million)	**35.4**	1.9
Weighted average number of Ordinary Shares in issue	**348,880,677**	346,385,511
Effect of dilutive Ordinary Shares and Share options	**2,665,293**	3,597,516
Weighted average number of dilutive Ordinary Shares	**351,545,970**	349,983,027
Basic	**10.2¢**	0.6¢
Diluted	**10.1¢**	0.6¢

Adjusted earnings per share

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

Reconciliation of profit to profit excluding share benefit charges, restructuring costs, retroactive taxes and associated charges, impairment costs and movement in contingent and deferred consideration:

	Year ended 31 December, 2012	2011
	US $ million	
Profit from continuing operations attributable to ordinary shareholders	**35.4**	1.9
Share benefit charges (excluding Share benefit charges within restructuring costs)	**1.7**	2.4
Restructuring costs	**-**	4.9
Retroactive taxes and associated charges	**11.1**	-
Movement in contingent and deferred consideration	**(2.0)**	(4.2)
Impairment charges	**2.2**	20.7
Profit excluding share benefit charges, restructuring costs, impairment charges, movement in contingent and deferred consideration and retroactive taxes and associated charges	**48.4**	25.7
Weighted average number of Ordinary Shares in issue	**348,880,677**	346,385,511
Weighted average number of dilutive Ordinary Shares	**351,545,970**	349,983,027
Adjusted basic earnings per share	**13.9¢**	7.4¢
Adjusted diluted earnings per share	**13.8¢**	7.3¢

9 Dividend

	Year ended 31 December, 2012	2011
	US $ million	
Dividends paid	**8.7**	-

An interim dividend of 2.5¢ per share was paid on 18 October 2012.
The Board of Directors will recommend to the shareholders a final divided in respect of the year ended 31 December 2012 comprising 4.5¢ per share and an additional one-off 2.0¢ per share, which will be recognised in the 2013 financial statements once approved.

10 Acquisitions

Acquisitions made during the year

Following commercial negotiations between the Group and one of its former B2B white label customers, the Group acquired the former customer's domain name and brands as at 1 January 2012 for cash consideration of US$0.6 million, and contingent consideration based on a percentage of revenue receivable originally estimated at US$0.9 million. All amounts, except for goodwill arising of $0.3m, have been attributed to intangible assets acquired, comprising customer information and brands. At the year end the contingent consideration payable has been increased by US$0.4 million. The acquisition is deemed immaterial in respect of IFRS3 disclosure requirements.

Acquisitions completed in prior years

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.

During the year 2012, the Group paid an amount of US$35.5 million and completed the settlement of the deferred consideration payable in respect of the Wink acquisition. Following negotiations with the vendors the final amount payable was reduced and as a result US$2.4 million was released to the consolidated Income Statement.

11 Intangible assets

	Goodwill	Acquired intangible assets	Other intangible assets	Total
	US $ million			
Cost or valuation				
At 1 January 2011	145.8	9.0	16.1	170.9
Additions	-	0.2	4.1	4.3
At 31 December 2011	**145.8**	**9.2**	**20.2**	**175.2**
Additions	-	-	10.5	10.5
Acquisitions	0.3	1.5	-	1.8
At 31 December 2012	**146.1**	**10.7**	**30.7**	**187.5**
Amortisation and impairments:				
At 1 January 2011	-	5.5	3.1	8.6
Impairment	20.7	-	-	20.7
Amortisation charge for the year	-	1.5	2.5	4.0
At 31 December 2011	**20.7**	**7.0**	**5.6**	**33.3**
Impairment	-	-	0.9	0.9
Amortisation charge for the year	-	1.7	3.9	5.6
At 31 December 2012	**20.7**	**8.7**	**10.4**	**39.8**
Carrying amounts				
At 31 December 2012	**125.4**	**2.0**	**20.3**	**147.7**
At 31 December 2011	125.1	2.2	14.6	141.9
At 31 December 2010	145.8	3.5	13.0	162.3

Analysis of goodwill by cash generating units:

	Bingo online business	Mytopia social games	Other	Total Goodwill
	US $ million			
Carrying value at 1 January 2011	125.1	20.2	0.5	**145.8**
Mytopia social games goodwill impairment	-	(20.2)	-	**(20.2)**
Internet domain name goodwill impairment	-	-	(0.5)	**(0.5)**
Carrying value at 1 January 2012	125.1	-	-	**125.1**
Acquisition of internet domain name and brands	-	-	0.3	**0.3**
Carrying value at 31 December 2012	125.1	-	0.3	**125.4**

11 Intangible assets (Cont.)

Impairment

In accordance with IAS36 and the Group's stated accounting policy an impairment calculation is carried out annually on the carrying amounts of goodwill and any other intangible assets that shows indication of impairment. A review was carried out at 31 December 2012 to assess whether there was any indication that its other intangible assets and property plant and equipment had been impaired. Where an impairment calculation was carried out, the carrying value in use of the assets was determined by discounting the future cash flows of the relevant cash generating unit to their present value.

Goodwill

Bingo Online Business

Goodwill and intangible assets associated with the 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. Cash flow projections have been prepared covering the following five year period. Underlying growth rates as shown in the table below have been applied to revenue and are based on past experience and projections of future changes in the online gaming market.

Having applied conservative estimates, certain B2B contracts due to end in the next three years have not been projected to be renewed and have been assumed to gradually decline over the period to contract end. The discount rate that is considered by the Directors to be appropriate is the Group's specific weighted average cost of capital which also applies to the online Bingo cash generating units.

Key assumptions used

	Discount rate applied[1]	Underlying growth rate year 1	Underlying growth rate years 2-5	Underlying growth rate year 6+	Operating expenses[2] increase years1-5	Operating expenses[2] increase year 6+
At 31 December 2012	10%	2%	0%	1%	6%	1%
At 31 December 2011	8%	2%	0%	1%	6%	1%

[1] The discount rate is recalculated every year by taking into account prevailing risk free rates, equity risk premium and company beta and having regard to external data commenting upon the Weighted Average Cost Of Capital applied to the group.

[2] Operating expenses exclude marketing costs which were included in the projections throughout the period as a fixed percentage of revenues

The Directors have concluded that there are no reasonably possible changes to key assumptions that would lead to impairment in the Bingo goodwill and intangible assets.

Mytopia social games

The Group performed an impairment review during the year 2011 on the cash generating Mytopia social games unit which was acquired in June 2010, which resulted in a full impairment charge of US$20.2 million against goodwill, which was taken to administrative expenses in the consolidated Income statement for the year 2011 and was 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 and non-compete agreement, are being amortised over their estimated useful economic lives of up to three years.

Other goodwill

Following an impairment review the directors consider no other impairment needs to be recognised. In 2011 an impairment review in respect of an internet domain name acquired in 2008 resulted in a full impairment charge of US$0.5 million.

11 Intangible assets (Cont.)

Other Intangible assets

Licenses

During December 2012, the Group requested the French licence to be revoked given the impact of high gaming duty rates imposed in France which ultimately rendered the offering of the Group's online gaming services in that jurisdiction not economically viable. As a consequence no future income arises from these assets and the Group has made a full impairment charge of US$0.8 million in respect of the French licence costs and other intangible assets of US$0.1 million.

Other intangible assets

No impairment tests were considered to be required at 31 December 2012 and the carrying value of other intangible assets is considered to be appropriate.

12 Property, plant and equipment

	IT equipment	Office furniture and equipment	Motor vehicles	Leasehold improvements	Total
	US $ million				
Cost					
At 1 January 2011	41.8	2.8	0.5	15.1	60.2
Additions	4.4	-	-	0.1	4.5
Disposals	(5.6)	-	-	(1.9)	(7.5)
At 31 December 2011	40.6	2.8	0.5	13.3	57.2
Additions	10.3	0.1	0.1	0.1	10.6
Disposals	(0.4)	-	-	-	(0.4)
At 31 December 2012	**50.5**	**2.9**	**0.6**	**13.4**	**67.4**
Accumulated depreciation					
At 1 January 2011	28.6	1.7	0.4	7.9	38.6
Charge for the year	7.5	0.2	-	1.3	9.0
Disposals	(5.6)	-	-	(1.9)	(7.5)
At 31 December 2011	30.5	1.9	0.4	7.3	40.1
Charge for the year	7.4	0.2	0.1	1.5	9.2
Disposals	(0.2)	-	-	-	(0.2)
At 31 December 2012	**37.7**	**2.1**	**0.5**	**8.8**	**49.1**
Depreciated cost					
At 31 December 2012	**12.8**	**0.8**	**0.1**	**4.6**	**18.3**
At 31 December 2011	10.1	0.9	0.1	6.0	17.1
At 31 December 2010	13.2	1.1	0.1	7.2	21.6

13 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 2012 %	Percentage of equity interest 2011 %
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.

Under the terms of the JVA, 888 RM, PNL and TSG operated the network jointly.

High gaming duty rates imposed in France rendered the offering of the Group's online gaming services in that jurisdiction not economically viable. Accordingly, during December 2012, 888 RM requested its local licence to be revoked following which it was mutually agreed with PNL to terminate the joint venture.
Consequently the Group impaired the cost of its investment in the joint venture in the amount of US$1.3 million.

Aggregated amounts relating to TSG are as follows:

	2012	**2011**
	US$ million	
Non-current assets	**2.3**	2.3
Current liabilities	**2.2**	2.2
Revenues	**0.2**	1.7
Expenses	**(0.2)**	(1.5)
Profit	**-**	0.2
Share of before tax profit of Joint Venture	**-**	0.1
Investment including loans in equity accounted Joint Venture	**-**	1.2

14 Financial Assets – Available for sale investments

	Year ended 31 December,	
	2012	2011
	US $ million	
Balance at the beginning and end of the year	**0.2**	0.2

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 2011 and 2012 were insignificant.

15 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,	
	2012	2011
	US $ million	
Accrued severance pay	**0.4**	0.3
Property, plant and equipment	**0.6**	0.1
Intangible assets	**(0.8)**	(0.4)
Provision for share benefit charges	**0.2**	0.1
Provision for vacation	**0.3**	0.3
Hedging gains	**(0.3)**	-
	0.4	0.4

16 Cash and cash equivalents

	31 December,	
	2012	2011
	US $ million	
Cash and cash equivalents	**78.1**	74.1
Restricted cash	**3.4**	1.8
	81.5	75.9

Restricted cash represents customers' funds held in designated accounts under regulated market licence requirements.

17 Short term investments

	31 December, 2012	2011
	US $ million	
Deposits	**3.5**	6.0
	3.5	6.0

Short term investments primarily relates to deposits held by banks to support guarantees in respect of regulated markets licence requirements.

18 Trade and other receivables

	31 December, 2012	2011
	US $ million	
Trade receivables[1]	**20.1**	17.2
Corporate tax	**3.5**	1.8
Fair value of derivative financial instruments[2]	**3.3**	-
Other receivables and prepayments[1]	**6.1**	7.4
	33.0	26.4

[1] The carrying value of trade receivables 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.

[2] Derivative financial instruments are measured at fair value under IAS 39 and comprise level 2 fair value measurement instruments. Any gains or losses arising from changes in the fair values of derivatives are recorded immediately in the consolidated income statement.

19 Share capital

Share capital comprises the following:

	Authorized 31 December 2012	2011	2012	2011
	Number		US $ million	
Ordinary Shares of £0.005 each	**426,387,500**	**426,387,500**	**3.9**	**3.9**

	Allotted, called up and fully paid 31 December 2012	2011	2012	2011
	Number		US $ million	
Ordinary Shares of £0.005 each	**347,687,468**	345,429,509	**3.2**	3.2
Issue of ordinary shares of £0.005 each	**2,000,888**	2,257,959	**-**	-
	349,688,356	347,687,468	**3.2**	3.2

19 Share capital (Cont.)

The following tables include details on issue of ordinary shares of £0.005 each as part of the Group's employee share option plan (see note 24) during 2012 and 2011:

Issued during 2012	**Ordinary shares of £0.005 each**
January 2012	76,816
April 2012	362,612
May 2012	1,106,071
June 2012	194,988
August 2012	161,468
October 2012	98,933
Shares Issued during 2012	2,000,888

Issued during 2011	**Ordinary shares of £0.005 each**
March 2011	50,000
May 2011	780,612
June 2011	359,443
August 2011	187,105
September 2011	45,106
October 2011	474,597
November 2011	174,528
December 2011	186,568
Shares Issued during 2011	2,257,959

During 2012, the Company did not issue shares (2011: nil) in respect of employees' exercising market value options.

Shares issued are converted into US$ at the exchange rate prevailing on the date of issue. The issued and fully paid share capital of the Group amounts to US$3.2 million (2011: US$3.2 million) and is split into 349,688,356 (2011: 347,687,468) ordinary shares. The share capital in UK sterling (GBP) is £1.7 million (2011: £1.7 million) and translates at an average exchange rate of US$1.82 (2011: US$1.86) to GBP.

20 Trade and other payables

	31 December,	
	2012	**2011**
	US $ million	
Trade payables	**33.1**	27.3
Corporate taxes	**2.3**	0.7
Other payables, accrued expenses and deferred income	**50.0**	37.5
	85.4	65.5

The carrying value of trade and other payables approximates to their fair value given the short maturity date of these balances.

21 Contingent and deferred consideration

	31 December, 2012	31 December, 2011
	US $ million	
Deferred consideration re Wink acquisition	**-**	37.4
Other contingent consideration[1]	**0.7**	-
	0.7	37.4

[1] The Group has recognised contingent and deferred consideration on an acquisition in the period. Further details are given in note 10.

Contingent and deferred consideration- movements in the year

	Wink Bingo business[1]	Mytopia social games	Others	Total
	US $ million			
Contingent and deferred consideration at 1 January 2011	72.1	10.2	-	82.3
Paid in year – Capital amounts	(40.1)	(6.0)	-	(46.1)
Unwinding of discount	3.7	-	-	3.7
Movement in contingent and deferred consideration	-	(4.2)	-	(4.2)
Foreign exchange differences on deferred consideration	1.7	-	-	1.7
Contingent and deferred consideration at 31 December 2011	**37.4**	**-**	**-**	**37.4**
Other contingent and deferred consideration arising on acquisitions	-	-	1.5	1.5
Paid in year – Capital amounts	(35.5)	-	(1.2)	(36.7)
Movement in contingent and deferred consideration	(2.4)	-	0.4	(2.0)
Foreign exchange differences on deferred consideration	0.5	-	-	0.5
Contingent and deferred consideration at the end of the year	**-**	**-**	**0.7**	**0.7**

[1] During the year 2012, the Group paid an amount of US$35.5 million and completed the settlement of the deferred consideration payable in respect of the Wink acquisition. Following negotiations with the vendors the final amount payable was reduced and as a result US$2.4 million was released to the consolidated Income Statement.

22 Liabilities to customers and progressive prize pools

	31 December, 2012	31 December, 2011
	US $ million	
Liabilities to customers	**44.1**	40.0
Progressive prize pools	**5.4**	4.9
	49.5	44.9

23 Investments in significant subsidiaries

Name	Country of incorporation	Percentage of equity interest 2012 %	Percentage of equity interest 2011 %	Nature of business
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 support
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	Data hosting and development services
888 Regulated Markets Limited	Malta	100	100	Holder of French online gaming licence
Virtual Marketing Services Italia SRL	Italia	100	100	Holder of Italian online gaming licence
888 Spain Public Limited Company	Gibraltar	100	100	Holder of Spanish online gaming licence
888 Virtual Limited	Gibraltar	100	100	Holder of group IP assets
888 US Limited	Gibraltar	100	100	Applied for internet gaming service provider licence in the state of Nevada
888 US INC.	USA	100	100	Provider of data hosting services for the forthcoming US operations
AGN LLC	USA	100	100	Applied for internet gaming service provider licence in the state of Nevada

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 instalments over a fixed period of up to four years. Certain of these awards are subject to performance conditions imposed by the Remuneration Committee at the dates of grant.

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

Share options granted

	31 December,			
	2012		**2011**	
	Weighted average exercise price	**Number**	**Weighted average exercise price**	**Number**
Outstanding at the beginning of the year	**£ 1.41**	**3,645,044**	£ 1.38	4,587,481
Market value options lapsed during the year	**£ 1.41**	**(503,622)**	£ 1.29	(942,437)
Outstanding at the end of the year[1,2]	**£ 1.41**	**3,141,422**	£ 1.41	3,645,044

[1] Of the total number of options outstanding at the end of the year, 2,923,109 had vested and were exercisable at the end of the year (2011: 2,932,129).

[2] The range of exercise prices for options outstanding at the end of the year is £1.02-£1.80 (2011: £1.02-£1.80).

Shares granted

	31 December,	
	2012	**2011**
	Number	**Number**
Outstanding at the beginning of the year	**6,368,292**	4,441,138
Shares granted - future vesting	**2,134,719**	5,091,457
Lapsed future vesting shares	**(642,445)**	(906,344)
Shares issued during the year	**(2,000,888)**	(2,257,959)
Outstanding at the end of the year	**5,859,678**	6,368,292

Shares are granted at a nominal exercise price.

24 Share-based payment (Cont.)

Valuation information – Shares granted

	2012	2011
Weighted average share price at grant date	**£ 0.63**	£ 0.34
Weighted average share price at issue of shares	**£ 0.72**	£ 0.34
Average remaining life until vesting (Months)	**18**	20

Shares granted for future vesting are valued at the share price at grant date which the Company considers approximates to the fair value. The restrictions on the shares during the vesting period, primarily relating to non-receipt of dividends, and any performance conditions attached are considered to have an immaterial effect on the share option charge.

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

Cash-settled share-based payment

On 27 March 2012, the Company awarded its Chief Executive Officer a cash settled share-based award. The phantom award will be fully vested in three years from the grant date, provided he remains in employment with the Company on the third anniversary of the grant date. Under specific terms, the phantom award will also vest if he leaves employment before the normal vesting date as detailed in the Directors remuneration report.

The amount payable is calculated on an incremental basis, based on the average share price of the Company over a period of 20 dealing days prior to the scheduled vesting date for the award. The minimum amount payable is £0.25 million and the maximum amount payable is £5.5 million if the share price is above £2.00.

Valuation information

	31 December,	
	2012	2011
Option pricing model used	**Monte Carlo**	-
Share price at 31 December 2012	**£1.19**	-
Remaining life until vesting	**2.24 years**	-
Risk-free interest rate	**0.37%**	-
Standard deviation	**50.31%**	-

24 Share-based payment (Cont.)

Share benefit charges

	Year ended 31 December	
	2012	2011
	US $ million	
Equity settled		
Charges in respect of share and option awards granted this year	**-**	0.6
Charges in respect of share and option awards granted in previous years	**0.9**	1.8
	0.9	2.4
Charges in respect of share and option awards granted in previous years included within restructuring charges (see note 4)	**-**	0.5
Equity settled charge for the year	**0.9**	2.9
Cash settled		
Charges in respect of the phantom option awards granted this year	**0.8**	-
Total share benefit charges	**1.7**	2.9

25 Related party transactions

The aggregate amounts payable to the directors as well as share-based charges are set out below:

	31 December	
	2012	2011
	US $ million	
Short term benefits[1]	**3.0**	3.3
Share benefit charges –equity settled[1]	**0.3**	0.8
Share benefit charges – cash settled	**0.8**	-
	4.1	4.1

[1] In addition, following the departure of the former CEO on 30 April 2011, the Group incurred aggregated termination and related costs of US$3.9 million, of which US$3.4 million were in respect of short term benefits and US$0.5 million in respect of accelerated equity settled share benefit charges.

26 Commitments

Lease commitments

Future minimum lease commitments under property operating leases for the year ended 31 December 2012 are as follows:

	Year ended 31 December	
	2012	2011
Leases expiring within	US $ million	
One year	**3.3**	3.3
Two to five years	**9.2**	11.3
	12.5	14.6

The amount paid in the year was US$3.5 million (2011: US$3.7 million).

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;
- Short term investments;
- Trade and other receivables;
- Trade and other payables;
- Liabilities to customers;
- Available for sale financial investments

Detailed analysis of these financial instruments is as follows:

	31 December	
	2012	2011
Financial assets	US $ million	
Trade receivables	20.1	17.2
Other receivables	6.5	5.0
Cash and cash equivalents	78.1	74.1
Restricted cash	3.4	1.8
Short term investment	3.5	6.0
Available for sale financial investments	0.2	0.2
	111.8	104.3

In accordance with IAS 39, all financial assets are classified as loans and receivables except for available-for-sale assets and US$3.3 million relating to 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.

27 Financial risk management (Cont.)

Financial liabilities	31 December 2012	31 December 2011
	US $ million	
Trade payables	33.1	27.3
Other payables and accrued expenses	40.7	36.1
Contingent and deferred consideration	0.7	37.4
Liabilities to customers	49.5	44.9
	124.0	145.7

In accordance with IAS 39, all of the above financial liabilities are held at amortised cost, except for US$0.5 million of contingent consideration arising on acquisitions which are recognised at fair value. (2011: except for US$1.5 million relating to the forward currency contracts to hedge risks associated with foreign exchange transactions recognised at fair value.)

At 31 December 2012 and 2011, the fair value and the book value of the Group's financial assets and liabilities were materially the same.

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 (2011: 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.

27 Financial risk management (Cont.)

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 2012 was US$1.1 million (2011: US$1.2 million).

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 main 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.

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

Restricted cash

Restricted cash represents customers' funds held for payment service provider transactions in respect of regulated markets.

Short term investments

Short term investments primarily relates to deposits held by banks for guarantees in respect of regulated markets licence applications.

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

	31 December 2012		31 December 2011	
	Carrying value	Maximum exposure	Carrying value	Maximum exposure
	US $ million			
Trade receivables	20.1	20.1	17.2	17.2
Other receivables	6.5	6.5	5.0	5.0
Cash and cash equivalents	78.1	78.1	74.1	74.1
Restricted cash	3.4	3.4	1.8	1.8
Short term investment	3.5	3.5	6.0	6.0
Available for sale financial investments	0.2	0.2	0.2	0.2
	111.8	**111.8**	104.3	104.3

27 Financial risk management (Cont.)

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 2012				
	Trade payables	Other payables[1]	Deferred and contingent consideration	Liabilities to customers	Total
	US $ million				
On demand	6.9	2.1	-	49.5	58.5
In 3 months	24.8	33.3	0.3	-	58.4
Between 3 months and 1 year	1.4	4.5	0.4	-	6.3
More than 1 year	-	0.8	-	-	0.8
	33.1	40.7	0.7	49.5	124.0

[1] Includes other payables, accrued expenses, derivative financial liabilities and provisions, and excludes deferred income

	31 December 2011				
	Trade payables	Other payables[1]	Deferred and contingent consideration	Liabilities to customers	Total
	US $ million				
On demand	8.5	1.0	-	44.9	54.4
In 3 months	17.1	32.4	-	-	49.5
Between 3 months and 1 year	1.5	1.6	37.4	-	40.5
More than 1 year	0.2	1.1	-	-	1.3
	27.3	36.1	37.4	44.9	145.7

[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 overnight facilities. The Group also arranges with its principal bankers that excess GBP 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 interest rates 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$0.3 million.

27 Financial risk management (Cont.)

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 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 2012 the Group had entered into Israeli shekel/US dollar outstanding forward contracts totaling US$81 million regarding 2013 operational business costs expected to be incurred in Israeli shekels. In addition the Group had entered into US dollar/ GB Pound as well as US Dollar/Euro forward contracts totaling US$140 million regarding 2013 expected currency excess in GB Pound and Euro. The total fair value of the forward contracts was US$ 3.3 million to be settled on a monthly basis throughout 2013. (2011: the Group had entered into GB Pound/US dollar outstanding forward contracts totaling US$32.4 million regarding the Wink deferred liability whose fair value as at 31 December was US$1.5 million which had been settled during the year 2012.

The tables below detail the net financial position by currency at 31 December 2012 and 2011:

	31 December, 2012					
	GBP	EUR	ILS	USD	Other	Total
	US $ million					
Cash and cash equivalent	16.9	7.3	7.4	44.9	1.6	78.1
Restricted cash	-	3.4	-	-	-	3.4
Receivables	9.9	6.0	4.9	3.6	2.2	26.6
Short term investments	-	2.7	0.8	-	-	3.5
Available for sale financial investments	-	-	-	0.2	-	0.2
Net monetary assets	26.8	19.4	13.1	48.7	3.8	111.8
Payables	(21.3)	(17.3)	(20.5)	(63.1)	(1.8)	(124.0)
Net monetary liabilities	(21.3)	(17.3)	(20.5)	(63.1)	(1.8)	(124.0)
Net financial position	5.5	2.1	(7.4)	(14.4)	2.0	(12.2)

27 Financial risk management (Cont.)

	31 December, 2011					
	GBP	EUR	ILS	USD	Other	Total
	US $ million					
Cash and cash equivalent	12.3	9.7	5.3	43.9	2.9	74.1
Restricted cash	0.4	1.2	-	0.1	-	1.7
Receivables	7.0	6.4	0.6	5.6	2.6	22.2
Short term investments	-	5.2	0.8	0.1	-	6.1
Available for sale financial investments	-	-	-	0.2	-	0.2
Net monetary assets	19.7	22.5	6.7	49.9	5.5	104.3
Payables	(60.2)	(7.9)	(13.8)	(63.5)	(0.3)	(145.7)
Net monetary liabilities	(60.2)	(7.9)	(13.8)	(63.5)	(0.3)	(145.7)
Net financial position	(40.5)	14.6	(7.1)	(13.6)	5.2	(41.4)

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, 2012		
	GBP	EUR	ILS
	US $ million		
10% Strengthening	(0.6)	(0.2)	0.7
10% Weakening	0.6	0.2	(0.7)

	Year ended 31 December, 2011		
	GBP	EUR	ILS
	US $ million		
10% Strengthening	4.1	(1.5)	0.7
10% Weakening	(4.1)	1.5	(0.7)

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 and duties 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.