21 March 2017

888 Holdings Public Limited Company

(“888” or the “Group”)

Audited annual financial results for the year ended 31 December 2016

Another year of outstanding progress for 888

888, one of the world’s most popular online gaming entertainment and solutions providers, announces its audited annual financial results for the year ended 31 December 2016.

Financial Highlights

- Revenue increased 13% to US$520.8 million (2015: US$462.1 million); on a constant currency basis* revenue increased 18%
- B2C revenue increased 15% to US$460.2 million (2015: US$399.4 million); on a constant currency basis B2C revenue increased 20%
- Casino revenue increased 21% to US$279.3 million (2015: US$230.6 million); on a constant currency basis Casino revenue increased 26%
- Revenue from Sport increased 49% to US$51.9 million (2015: US$34.8 million); on a constant currency basis Sport revenue increased 58%
- Adjusted EBITDA* increased 12% to US$90.2 million (2015: US$80.6 million); on a constant currency basis Adjusted EBITDA increased 24% to US$100 million
- Adjusted EBITDA margin remained stable at 17.3% (2015: 17.4%) or 18.3% at constant currency
- Substantial free cash flow, allowing for dividend payments during the year of US$56.6 million (2015: US$53.5 million).
- Basic earnings per share increased 74% to 14.4¢ (2015: 8.3¢)
- The Board is recommending a final dividend of 5.1¢ per share (2015: 4.0¢ per share) due to the strong results and additional one-off 10.5¢ per share bringing the total for the year to 19.4¢ per share (2015: 15.5¢ per share)

** As defined in the business and financial review below*

Operational Highlights

- Mobile continues to drive growth across verticals and, in the UK, increased to represent 60% of UK B2C revenue (2015: 47%)
- Continued growth in Casino with 27% increase in active players and a 23% increase in first time depositors
- Active Sports players increased 49% and first time depositors increased 52%
- Impressive 45% revenue growth in Spain making it the second largest market for the Group
- Continued progress in Italy supported by launch of Sport in Q1 2016 driving a 66% increase in revenue
- Poker first time depositors up 6%
- Good progress in Denmark where the Group launched in H2 2015 as well as in 888’s newest regulated territory, Romania
- 23 new skins added to the Dragonfish Bingo network

Itai Frieberger, CEO of 888, commented:

"2016 was another fantastic year for 888 during which we continued to deliver very strong organic revenue and profit growth. This was again underpinned by further outstanding progress in Casino, Sport and across regulated markets. 888's further expansion in the UK, Spain and Italy is a strong demonstration of the Group's ability to drive excellent growth and build leading market positions across regulated markets as the industry continues to head in this direction.

Despite currency headwinds, revenue reached an all-time high of 520.8 million dollars and, at constant currency, increased 18% year on year to US$546.4 million. At the same time, the Group's underlying margins remain healthy and profit before tax increased significantly to 59.2 million dollars. These strong results demonstrate the truly outstanding underlying momentum in the business. In addition, the Group's strong free cash flow and confidence in the outlook has enabled the Board to propose a 25% increase in total dividend for the year.

Current trading since the start of the year remains healthy with average daily revenue more than 11% above the previous year at constant currency.

888 is a fast-growing operator with the majority of its revenue now generated from regulated markets. The Group is truly diversified with successful operations under 10 licences, four established B2C product verticals and an outstanding B2B offer. Underpinning 888's success we have a leading-edge technology platform and an exceptionally skilled team. I would like to take this opportunity to thank everyone across the business for their commitment and hard work.

The Board continues to see a number of significant growth opportunities for 888 both in new and existing markets and we look forward to another exciting year of progress."

Financial summary

	2016[1] US$ million	2015[1,3] US$ million	Change Constant currency[2]	Change Reported
Revenue– B2C				
Casino	**279.3**	**230.6**	**26%**	**21%**
Poker	**84.4**	**86.7**	**(3%)**	**(3%)**
Sport[3]	**51.9**	**34.8**	**58%**	**49%**
Bingo	**41.8**	**44.0**	**7%**	**(5%)**
Emerging Offerings[3]	**2.8**	**3.3**	**(14%)**	**(15%)**
Total B2C	**460.2**	**399.4**	**20%**	**15%**
B2B[3]	**60.6**	**62.7**	**6%**	**(3%)**
Revenue	**520.8**	**462.1**	**18%**	**13%**
Operating expenses[4]	**(136.1)**	**(127.4)**		
Gaming duties[5]	**(60.5)**	**(50.0)**		
Research and development expenses	**(34.3)**	**(36.8)**		
Selling and marketing expenses	**(170.2)**	**(138.9)**		
Administrative expenses[6]	**(29.5)**	**(28.4)**		
Adjusted EBITDA[4,5,6]	**90.2**	**80.6**	**24%**	**12%**
Depreciation and amortisation	**(19.0)**	**(18.6)**		
Share benefit charges, finance and other	**(8.1)**	**(6.5)**		
Exceptional acquisition costs	**(0.9)**	**(14.6)**		
Exceptional retroactive duties and associated charges	**(3.0)**	**(8.4)**		
Profit before tax	**59.2**	**32.5**		**82%**
Basic earnings per share	**14.4¢**	**8.3¢**		**74%**

Reconciliation of profit before tax to EBITDA and Adjusted EBITDA

	2016[1] US$ million	2015[1] US$ million
Profit before tax	**59.2**	**32.5**
Finance expense	1.3	2.3
Exceptional finance expenses	-	5.9
Depreciation	8.4	8.9
Amortisation	10.6	9.7
EBITDA	**79.5**	**59.3**
Exceptional legal and professional costs	0.9	17.5
Exceptional reimbursement of acquisition costs	-	(8.8)
Exceptional retroactive duties and associated charges	3.0	8.4
Share benefit charges	6.7	4.1
Share of post-tax loss from equity accounted associates	0.1	0.1
Adjusted EBITDA[7]	**90.2**	**80.6**

1 Totals may not sum due to rounding.

2 Constant currency: 888 reports its financial results in US$ but (i) generates certain revenue streams from customers using other currencies and (ii) incurs costs in various currencies. Due to the strong US$ in 2016, reported revenue and profit were adversely impacted. Constant currency has been calculated as follows: (i) Revenue: with the exception of Poker, by applying 2015 exchange rates to revenue generated during 2016. Poker revenue was also adversely impacted given that many Poker customers fund their US$ bankroll using other currencies, which suffered reduced purchasing power compared to the US$. It is difficult to quantify reliably this indirect impact (other than a small adjustment which was made to Poker revenue generated in Euro) (ii) Costs were retranslated by applying 2015 exchange rates.

3 Sport, which was previously included in the Emerging Offerings segment, is presented as a standalone segment. Brand licensing on third party platforms, which was previously included in the Emerging Offerings segment, is now included in the B2B segment. 2015 revenue figures have been re-classified to allow a like for like comparison. These changes are described in note 2 to the financial statements.

4 Excluding depreciation of US$8.4 million (2015: US$8.9 million) and amortisation of US$10.6 million (2015: US$9.7 million).

5 Excluding exceptional retroactive duties and associated charges of US$3.0 million in respect of gaming taxes relating to activity in prior years (2015: US$8.4 million).

6 Excluding share benefit charges of US$6.7 million (2015: US$4.1 million).

7 Adjusted EBITDA is the main measure analyst community use to evaluate the company and compare it to its peers.

Analyst Presentation

Itai Frieberger, Chief Executive Officer and Aviad Kobrine, Chief Financial Officer, will be hosting a presentation for analysts today at 10:00 (GMT) at the offices of Hudson Sandler, 29 Cloth Fair, London EC1A 7NN. To express interest in attending please contact 888@hudsonsandler.com or call +44 (0)207 796 4133.

An audio webcast of the presentation will be available from the investor relations section of 888's website (http://corporate.888.com/investor-relations) later today.

Enquiries and further information:

http://corporate.888.com/

888 Holdings Plc

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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

I am delighted to update our stakeholders on what has been another outstanding year for 888. Our strong financial results for the year have been underpinned by significant progress against our strategic objectives. As you will read in more detail throughout this year's Annual Report, 888's success in 2016 was characterised by continued investment in our technology leadership; successful further expansion in regulated markets; and standout performances in Casino and Sport.

Results

2016 was another very busy year at 888 and, testament to the skill and entrepreneurial spirit of our exceptional team, our operational performance was stronger than ever. This resulted in the Group delivering revenue growth of 13% to US$520.8 million (2015: US$462.1 million) despite significant adverse currency movements impacting our reported results. At constant currency revenue increased impressively by 18% to US$546.4 million.

Our core B2C business continued to grow, with a 5% increase in active customers, driven primarily by outstanding results in Casino and Sport, growth in regulated markets and by our offer on mobile devices, which expanded to represent 60% of B2C revenue in the UK (2015: 47%). As a result, total B2C revenue was US$460.2 million, representing a 15% uplift on the prior year (2015: US$399.4 million) or a 20% increase at constant currency to US$479.9 million.

Adjusted EBITDA increased by 12% to US$90.2 million (2015: US$80.6 million) which represented 24% growth at constant currency to US$100 million and profit before tax was 82% higher at US$59.2 million (2015: US$32.5 million). The Group remains highly cash generative with net cash generated from operating activities of US$68.1 million (2015: US$85.0 million).

Given the continuing strong financial performance of the Group and the Board's confidence in the outlook, the Board of Directors is recommending a final dividend of 5.1¢ per share in accordance with 888's dividend policy, plus an additional one-off 10.5¢ per share bringing the total for the year to 19.4¢ per share (2015: 15.5¢ per share).

Strategic progress

The Board believes that 888's proprietary online gaming technology is second to none. This strength, coupled with the Group's business analytics, customer relationship management and marketing expertise, continues to provide the foundation for 888's competitive advantages. In such a dynamic and rapidly developing industry, continually investing in and developing our own world class technology means that we are able to be nimble in relation to opportunities, respond to regulatory developments and create new, engaging and - above all - safe and secure entertainment for our customers.

In 2016 we delivered further successful expansion across regulated markets where we are able to leverage the Group's full marketing expertise to develop the 888 brands. We continued to make outstanding progress in the UK; Spain, which is now our second largest market; Italy, where we are benefitting from the introduction of Sport in the first quarter of the year; and Denmark, where we successfully launched in the second half of 2015 with a full suite of products and brands. Revenue from regulated markets increased to represent 61% of Group revenue (2015: 59%), significantly outpacing growth from unregulated "dot.com" markets.

The Board had previously identified sports betting as a major opportunity for the Group. In 2016, a major focus was on driving growth in Sport, which we are for the first time in our Annual Results reporting as a standalone product vertical. During the year we significantly increased investment behind marketing the 888Sport brand and enjoyed a very successful European Football Championships in the summer, which demonstrated our ability to effectively compete during major sporting events. As a result, Sport customers increased by 49% and revenue increased by 49% to US$51.9 million (2015: US$34.8 million). In 2017, the Group will continue to invest behind delivering the exciting further opportunities for Sport both in terms of revenue growth and efficient customer acquisition.

888's success in Sport is just one example of the Group's ability to identify new growth opportunities and successfully deliver them. In addition to our organic growth plans, M&A remains a part of the Group's strategic agenda and, with 888 in great health, it is an area that we are able to evaluate from a position of strength. 888 has significant organic growth potential and - where M&A might complement this - we will continue to evaluate and explore appropriate opportunities.

888's winning team

On behalf of the Board, I would like to take this opportunity to thank each and every one of my colleagues at 888 for their commitment during the year. 2016 was a very busy year for the Group and the success we have been able to deliver under 10 licences across regulated markets, four major product verticals and both B2C and B2B divisions speaks volumes for the strength in depth of our people throughout 888. I am confident that their skill and dedication will ensure 888 remains at the forefront of the online gaming industry for years to come.

I would also like to thank Amos Pickel, who has served on the 888 Board as a Non-executive Director and as a Chairman and member of Board committees since 2006, and who does not intend to offer himself for re-election at the 2017 Annual General Meeting. Amos has brought a wealth of experience and knowledge to the Board, and we wish him well in his future endeavours.

The Board is fully committed to complying with the principles of the UK Corporate Governance Code. You can find the required regulatory and governance disclosures throughout this report and in the compliance statement in the 2016 Annual Report.

Outlook

The global online gaming market is dynamic and will continue to grow driven by technology developments, the opening up of new marketing channels and further regulation.

888 operates in a highly regulated industry across multiple geographies and the Group's investment will remain focused on driving growth in markets where there are sustainable regulatory frameworks for online gaming. Regulated markets are the future of our industry and 888 has an enviable track record in adapting to and capitalising on new regulatory developments.

In the UK, in August 2017 changes in remote gaming duty will expand the tax base to include customer bonuses and this will have an impact on the competitive dynamics and profitability of operators. However, with our own gaming platforms and significant experience of adapting to new regulatory environments, 888 remains well positioned to mitigate in part the impact of and capitalise on opportunities presented by these changes.

The Group continues to monitor and plan for potential implications from the UK's decision to leave the European Union. However, we do not anticipate significant impact on our operations. Since the ”Brexit” vote Sterling has devalued compared to the US$ and, as the Group has adopted the US$ as its reporting currency, our reported financials have consequently been impacted.

Trading during the financial year to date has been in line with the Board's expectations with average daily revenue more than 11% above the previous year at constant currency.

888 is an increasingly diversified operator with the majority of its income now generated from regulated markets. The Group has significant further growth opportunities across its existing geographies, platforms and product verticals and will continue to evaluate and explore new avenues for growth. Into 2017 and beyond 888's focus will remain as resolute as ever on delivering a truly satisfying experience for our customers, thereby delivering strong, sustainable long term earnings growth for our shareholders.

Brian Mattingley
Chairman

CEO's STRATEGIC REPORT

During 2016, 888 again made strong progress against its stated strategy. We have continued to deliver outstanding organic growth and expand our brands across the regulated markets we operate in. 888 today is a truly diversified operator across markets and product verticals with a unique technology platform and an outstanding team and culture at its core. With these qualities we continue to see a number of clear growth opportunities for the Group both in existing and new markets.

888's 'DNA'

888's mission is to supply its customers with innovative and market-leading online gaming entertainment, above all in a safe and secure environment. The Group's competitive advantages to achieve this are built on world class proprietary gaming technology; leading-edge Customer Relationship Management ("CRM") based on business analytics expertise; strong brands and innovative marketing.

Technology leadership and continuous innovation are central to 888's progress, and the Group is constantly evolving and developing its proprietary platforms and industry-leading back office systems to maintain its competitive edge. This is supported by a strong corporate culture which encourages our skilled end entrepreneurial team to develop innovative ideas and test them. Whilst a significant number of our myriad ideas and projects may never reach the market, they are part of a process and mindset of continually striving to develop our edge and lead the industry.

888 employs an extensive team of highly trained and experienced business analytics and data-mining professionals who have analysed and learned from customer behaviour since 888's foundation nearly two decades ago. Teams across 888 from product development to marketing to customer support leverage this extensive and constantly evolving data and, by applying robust statistical models, are able to successfully influence the following three key drivers of 888's success:

1. increasing the number of new players (first time depositors or "FTDs") across 888's brands;
2. reducing the cost per acquisition ("CPA") of those new players to 888; and
3. maximising the life time value ("LTV") (measured as average forecasted revenue over a customer's entire life cycle) to 888 of each customer.

This is supported by 888's strong, trusted and award-winning brands that remain crucial in the competitive global online gaming market. The Group's consistent and engaging customer offer, focused customer support and heritage in online gaming have meant that 888's brands are amongst the most trusted and recognised in the online industry. The Group's resolute focus on product development, customer service and marketing continue to support the sustained strength and appeal of 888's brands.

As a business we never lose sight of our duty as a responsible operator and 888 acknowledges there is a potential danger that its games may pose for a small minority of people. We take comprehensive steps to minimise fraud, problem gaming and eliminate minors from using our services. Through rigorous and timely customer checks as well as ongoing real-time tracking of customer activity, 888 continually monitors for irregular activity that may be an indication of compulsive gaming or fraud. 888's fraud and prevention and customer service teams are highly trained and have developed efficient and proactive methods to identify issues and notify and protect our customers. Further details on 888's robust Information Technology systems are given in the Risk Management Strategy report in the 2016 Annual Report. We pride ourselves on the strength of our customer relationships and first class customer support is offered through telephone, email and online chat functions to customers around the world in nine different languages.

888's business model

888 Holdings is structured into two lines of business: B2C, under the 888 brands, and B2B, conducted through Dragonfish.

B2C –online business cycle

1. Marketing

At the core of 888's business philosophy is an unwavering focus on return to cost driven marketing. The business continually develops innovative marketing techniques and channels, both online (including online advertising, affiliate programmes, search engine optimisation) and offline (including TV and print media advertising, sponsorships) to support its brands and increase customer loyalty. The returns to cost of all marketing campaigns are rigorously tested against 888's strict criteria before being extended to their target markets. This ensures that 888's marketing spend is both cost efficient and highly effective.

2. Acquisition

Effective marketing helps to attract customers to 888's brands in the most cost effective manner. Strong levels of customer acquisition, measured by increases in first time depositors ("FTDs"), is the fuel for 888's ongoing growth.

3. Deposits

Customers need to be able to enjoy a seamless, enjoyable journey from the moment they visit our websites through to depositing into their accounts and enjoying our games.

888's leading proprietary payment processing capabilities support a wide variety of languages and currencies with more than 35 payment methods. It is vital that we are able to offer fast, efficient and easy to use payment processing, both to ensure a positive customer experience but also to maximise revenue and convert browsers into players. 888's payment options include a cashier interface available in 18 languages, both for desktop and on mobile/tablet devices, with the most relevant payment methods identified and emphasised for different customers according to their market.

4. Customer relationship management

Once we have acquired a customer, we want to keep them enjoying their experience with 888 for the longest time possible.

Underpinned by sophisticated statistical models, the Group is able to effectively predict the life-time value of a new customer within a short period of time of them joining 888. This helps enable 888 to deliver to customers personalised communications across relevant channels that increase loyalty and activity. Underpinned by 888's analytical approach, the Group offers a broad range of appealing bonuses that are localised from country to country, from product to product, and according to a customer's individual profile. Furthermore, 888 is able to apply these skills to accurately identify potential "churning" players according to certain characteristics, interact with those players accordingly, and retain them for longer.

5. Activity

Ensuring that we continually offer a high quality product across our brands helps to increase customer activity and, consequently, life-time value with 888.

888's ability to successfully develop new proprietary games and functionality on mobile and desktop platforms helps to differentiate the 888 experience in the eyes of the customer. 888 combines exclusive and high-quality "in house" created content with third party games and branded content to ensure that we always offer the freshest and most enjoyable customer proposition. 888's products are seamlessly available and responsive across mobile and desktop platforms and the flexibility and consistent experience across devices means that customers are able to enjoy unrivalled gaming entertainment however and wherever they choose.

With 888's strengths in four major online gaming verticals - Casino, Poker, Sport and Bingo - through the use of analytics and proven predictive modelling, 888 is able to enhance customer activity and life-time value by promoting each relevant product to existing customers in a targeted and attractive way.

6. ***Gaming revenue***

By generating upward trends in customer LTV, our marketing teams are able to increase investment in campaigns to acquire more new customers and still ensure that the business meets its strict return to cost criteria.

Our B2C brands:

Product	**Our Offer**	**How we generate revenue**
Casino	888casino is one of the most recognised and longest standing online casino brands in the market, and the winner of numerous prestigious awards. 888casino is known for its generous jackpot prizes and aims to provide the most enjoyable online experience available by combining exclusive in-house developed games alongside branded video slots and 'live' Casino games, which offer high-quality video streamed casino games with a range of professional dealers.	Online casinos replicate the real-life casino experience with players playing against 'the house' across online versions of classic casino table games such as roulette and blackjack as well as slot and video games. In these games, the house has a statistical advantage or 'edge'. Casino gaming revenue is represented by the difference between the amounts of bets placed by customers less amounts won.
Poker	888poker is a multi-award winning poker destination, offering a first-class poker environment that enables players of all abilities to enjoy the games of their choice alongside a variety of innovative features.	In online poker, the operator acts as the virtual host for the game and provides a platform that enables customers to play various forms of poker against each other.

	Formats and features include BLAST (combining gaming with poker, allowing players to compete for a randomly drawn prize pool of up to 10,000 times the player's 'buy in' in a time-limited game), PokerCam (enabling players to enjoy secure poker games that are available in real time via 888's streaming webcam technology), 3D Poker, and TeamsPoker tournaments. 888poker offers Texas Hold'em, Omaha Hi'Lo, 7 Card Stud, Razz and other poker variations in Pot Limit, Fixed Limit and No Limit formats.	Poker revenue represents the commission (or 'rake') charged from each poker hand in ring games, and entry fees for participation in Poker tournaments.
Bingo	888's leading bingo brands each have engaging themes, a variety of games and a strong sense of community, replicating the experience of traditional bingo halls. The Group's bingo brands also benefit from a range of 888 and 3rd party developed slot games, casino games and scratch cards that are offered alongside traditional bingo formats. 888's portfolio of brands includes 888 Ladies, Wink Bingo, Posh Bingo and others.	As with traditional bingo halls, online bingo rooms offer customers the chance of winning prizes by purchasing tickets and playing their bingo format of choice. Bingo online gaming revenue is represented by the difference between the amounts of bets placed by customers less amounts won.
Sport	888Sport is a fast-growing sports betting destination. At the heart of the 888sport offer is genuine passion for sport, with thousands of live and pre-event betting markets on offer across hundreds of events, from the obvious to the obscure.	Sportsbook online gaming revenue comprises bets placed less pay-outs to customers. 888 pays a share of net gaming revenue to its third party sports betting platform provider.

B2B – Dragonfish, the partner of choice

Under its Dragonfish arm, the Group offers gaming partners a comprehensive end-to-end solution, encompassing technology, operations and advanced marketing tools, as well as online best practices. Drawing on two decades of 888's track record and reputation in online gaming, the Dragonfish team is uniquely placed to support its partners and deliver a cutting-edge online proposition.

Dragonfish's flexible platform and tools have been developed and certified to meet the rigorous regulatory requirements of the different jurisdictions in which its partner operate.

888's B2B business model is based on an agreed share of the revenue generated by its gaming partners.

The division is one of the world's largest providers and operators of bingo software. In addition, through its Casinoflex platform, Dragonfish offers its partners a wide range of more than 600 Casino games releases, including video slots, progressive jackpots, Live Dealer, video poker, table games and branded titles. Dragonfish/888 is also the only provider of poker and casino solutions across all three regulated US states – New Jersey, Nevada and Delaware. Dragonfish has powered some of the most prominent gaming brands in this space, such as Foxy Bingo, World Series Of Poker (WSOP), Moon Games and Costa Bingo.

888's growth strategy

888 has a strategy for sustainable growth and to deliver long-term value for all stakeholders by exploiting organic potential as well as evaluating attractive M&A opportunities.

The key pillars of 888's growth strategy remain:	2016 performance highlights:

Development of core B2C brands
888's B2C offering remains at the core of the Group and is the foundation of our success. We remain resolutely focused on continuing to develop our proposition to ensure that we offer customers the best possible online gaming entertainment.
888 has established leading brands in Casino, Poker and Bingo as well as the fast-growing and rapidly developing 888Sport.
	○ B2C revenue growth of 15% (20% at constant currency)
	○ Growth drivers continue to be Casino & Sport, capitalising on our focused investments:
	    ○ Casino –27% increase in active players and 23% increase first time depositors
	    ○ Sport –49% increase in active players and 52% increase in first time depositors
	○ Casino revenue up 21% (26% at constant currency) aided by further product development, regulated market growth and outstanding CRM
	○ New Casino brand, 777.com launched at the end of 2015 performing well
	○ Outstanding Sport revenue growth, up 49% (58% at constant currency) supported by increased marketing investment, strong Euro 2016 performance and enhanced offering
	○ 888Poker remains a credible alternative for Poker players and showed superiority in relative trend
	○ Poker first time depositors up 6% demonstrating the product's continued importance as a source of players acquisition, retention and cross-selling into Casino and Sport
	○ Successful introduction of fast featured "Poker BLAST" in the middle of the year and record breaking tournaments during the year fortifying our position as the go-to destination for recreational players
	○ Bingo increased 7% at constant currency, with high potential for CasinoFlex. Reported Bingo revenue decreased 5% impacted by GBP devaluation

	○ Bingo active players up 8% ○ Mobile continues to drive growth across verticals and in the UK increased to represent 60% of UK B2C revenue (2015: 47%) with an all-time record of 66% of revenues in the second half of 2016
Enhancing efficiencies Management remain steadfastly focused on maximising operational efficiencies, including by constantly developing and refining marketing approaches and driving increased volumes.	○ Continued operational gearing enables the Group to invest more into growth generating activities with the overall cost to revenue ratio stable at 83% despite an increase in the marketing ratio to 32.7% (2015: 30.1%) and gaming duties rising to 11.6% (2015: 10.8%)
Expansion in regulated markets 888's focus is on driving growth in markets where there are sustainable regulatory frameworks for online gaming and where we are able to exploit marketing opportunities for our brands. 888 has a proven track-record in successfully and efficiently launching and growing in attractive regulated markets.	○ Revenue from regulated markets increased to represent 61% (2015: 59%) of Group revenue (63% at constant currency) ○ Strong performance in core UK market driven primarily by continued Casino and Sport growth, offset by adverse currency movements. Underlying UK revenue increase during 2016 was 16% at constant currency and 5% on reported revenue ○ Impressive 45% growth in Spain following launch of 888Sport.es in H2 2014 and slot games during 2015 to become second largest market for the Group ○ Continued progress in Italy supported by launch of Sport in Q1 2016 driving a 66% increase in revenue ○ Progress in Denmark where the Group launched its Casino, Poker and Sport brands in H2 2015 as well as in 888's newest regulated territory – Romania
B2B partner of choice through Dragonfish We will continue to invest in and develop our B2B offer to establish Dragonfish as the partner of choice in both regulated and newly regulating markets.	○ B2B Revenue up 6% at constant currency and decreased 3% on reported revenue ○ 23 new skins added to the Dragonfish Bingo network ○ Casino flex platform already supports 26 brands with significant further growth potential

Continue to protect our customers and act responsibly At 888, it's all about having fun and we are focused on ensuring it always remains that way for our customers. The Group is constantly mindful of its social responsibilities, which includes protecting our customers and ensuring they enjoy a truly satisfying experience. 888 continues to invest resources in caring for our customers, protecting the vulnerable, and ensuring that we continue to entertain and delight those who choose to play with 888.	○ Continued review and optimisation of responsible gaming tools such as self-limits, take a break and self-exclusion ○ Continued investment in staff training and procedures to identify instances of problem gambling and fraudulent behaviour ○ Close partnership with major helping agencies and support centres ○ Continued to monitor environmental performance and identify opportunities for energy consumption and waste reduction

Itai Frieberger
Chief Executive Officer

2016 BUSINESS & FINANCIAL REVIEW

Introduction

888's success is built on its technological strength in combination with the efficient utilisation of this technology, directed by extensive data analytics. The goals of 888's business are simple: to maximise customer recruitment, increase customer lifetime value and minimise the cost per customer acquisition, thereby optimising return on marketing investment. The Group's strong financial performance in 2016 is once again a reflection of 888's continued success in attracting new customers, retaining them and increasing their overall spend.

Financial summary

	2016[1] US$ million	**2015[1,3] US$ million**	**Change Constant currency[2]**	**Change Reported**
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Bingo	41.8	44.0	***7%***	***(5%)***
Emerging Offerings[3]	2.8	3.3	***(14%)***	***(15%)***
Total B2C	**460.2**	**399.4**	***20%***	***15%***
B2B[3]	**60.6**	**62.7**	***6%***	***(3%)***
Revenue	**520.8**	**462.1**	***18%***	***13%***
Operating expenses[4]	(136.1)	(127.4)		
Gaming duties[5]	(60.5)	(50.0)		
Research and development expenses	(34.3)	(36.8)		
Selling and marketing expenses	(170.2)	(138.9)		
Administrative expenses[6]	(29.5)	(28.4)		
Adjusted EBITDA[4,5,6]	**90.2**	**80.6**	*24%*	***12%***
Depreciation and amortisation	(19.0)	(18.6)		
Share benefit charges, finance and other	(8.1)	(6.5)		
Exceptional acquisition costs	(0.9)	(14.6)		
Exceptional retroactive duties and associated charges	(3.0)	(8.4)		
Profit before tax	**59.2**	**32.5**		***82%***
Basic earnings per share	**14.4¢**	**8.3¢**		***74%***

Reconciliation of profit before tax to EBITDA and Adjusted EBITDA

	2016[1] US$ million	2015[1] US$ million
Profit before tax	**59.2**	**32.5**
Finance expense	1.3	2.3
Exceptional finance expenses	-	5.9
Depreciation	8.4	8.9
Amortisation	10.6	9.7
EBITDA	**79.5**	**59.3**
Exceptional legal and professional costs	0.9	17.5
Exceptional reimbursement of acquisition costs	-	(8.8)
Exceptional retroactive duties and associated charges	3.0	8.4
Share benefit charges	6.7	4.1
Share of post-tax loss from equity accounted associates	0.1	0.1
Adjusted EBITDA[7]	**90.2**	**80.6**

1 Totals may not sum due to rounding.

2 Constant currency: 888 reports its financial results in US$ but (i) generates certain revenue streams from customers using other currencies and (ii) incurs costs in various currencies. Due to the strong US$ in 2016, reported revenue and profit were adversely impacted. Constant currency has been calculated as follows: (i) Revenue: with the exception of Poker, by applying 2015 exchange rates to revenue generated during 2016. Poker revenue was also adversely impacted given that many Poker customers fund their US$ bankroll using other currencies, which suffered reduced purchasing power compared to the US$. It is difficult to quantify reliably this indirect impact (other than a small adjustment which was made to Poker revenue generated in Euro) (ii) Costs were retranslated by applying 2015 exchange rates. .

3 Sport, which was previously included in the Emerging Offerings segment, is presented as a standalone segment. Brand licensing on third party platforms, which was previously included in the Emerging Offerings segment, is now included in the B2B segment. 2015 revenue figures have been re-classified to allow a like for like comparison. These changes are described in note 2 to the financial statements.

4 Excluding depreciation of US$8.4 million (2015: US$8.9 million) and amortisation of US$10.6 million (2015: US$9.7 million).

5 Excluding exceptional retroactive duties and associated charges of US$3.0 million in respect of gaming taxes relating to activity in prior years (2015: US$8.4 million).

6 Excluding share benefit charges of US$6.7 million (2015: US$4.1 million).

7 Adjusted EBITDA is the main measure analyst community use to evaluate the company and compare it to its peers.

Financial Results and Dividend

In 2016 888's revenue reached an all-time high of US$520.8 million (2015: US$462.1 million), driven by the continued strong performances of Casino, Sport and regulated markets including Spain and Italy as well as further growth on mobile devices. This revenue growth of 13% compared to 2015 was achieved despite weaker currencies compared to the US$ when compared to the prior year. At constant currency, Group revenue increased 18% year on year to US$546.4 million.

Adjusted EBITDA for the year increased by 12% to US$90.2 million (2015: US$80.6 million) which represented 24% growth at constant currency at US$100 million. Adjusted EBITDA margin remained stable at 17.3% (2015: 17.4%) despite significant adverse currency movements. At constant currency, Adjusted EBITDA margin was 18.3%.

Profit before tax increased by 82% to US$59.2 million (2015: US$32.5 million) and profit after tax increased by 75% to US$51.5 million (2015: US$29.5 million). Basic Earnings per Share increased by 74% to 14.4¢ (2015: 8.3¢).

Cash generated from operating activities was US$68.1 million in 2016 (2015: US$85.0 million). The decrease compared to 2015 is more than offset when adding back US$22.7 million cash payments made during the year which relate to previous periods: US$14.5 million costs incurred during 2015 in respect of UK point of consumption tax, VAT and gaming duties (2015: US$3.0 million) and of US$8.2 million in respect of exceptional retroactive duties and associated charges (2015: US$3.2 million).

As at 31 December 2016, the Group's financial position remains strong with cash and cash equivalents of US$172.6 million (2015: US$178.6 million). This is despite the adverse impact from Sterling devaluation of US$8.4 million. As at 31 December 2016, the Group had US$75.7 million liabilities to customers (2015: US$82.4 million), which was effectively reduced by US$3.7 million as a result of Sterling devaluation.

Given the strong results during the year the Board of Directors is recommending a final dividend of 5.1¢ per share in accordance with 888's dividend policy plus an additional one-off 10.5¢ per share bringing the total for the year to 19.4¢ per share (2015: 15.5¢ per share).

B2C OVERVIEW

Active B2C customers and first time depositors, two core KPIs of the B2C business, increased 5% and 14% respectively year on year. This reflects highly effective customer relationship management and marketing activity across our brands as well as strong growth on mobile, and in Sport which we are for the first time in the Group's annual results reporting as a standalone vertical. The total number of active customers across 888's B2C Casino and Poker brands in the last quarter of 2016 was 728,000.

B2C revenue during the year was US$460.2 million, representing a 15% increase on the prior year (2015: US$399.4 million) and 88% of total Group revenue (2015: 86%). This strong outcome was driven primarily by continued momentum in Casino, outstanding growth in Sport, further growth in regulated markets and the increasing popularity of mobile.

Mobile remains a key driver in terms of revenue, deposits and customer recruitment across product verticals for 888 and the Group continues to benefit from owning its own proprietary mobile solution and games. B2C revenue from mobile devices in the UK increased to represent 60% (2015: 47%) of total UK revenue with customer recruitment and deposits from mobile devices also rising significantly.

B2C - Product segmentation

888's revenue by product segment is set out in the table below:

	2016 US$ million	2015 US$ million	Change Constant currency	Change Reported
Revenue - B2C				
Casino	**279.3**	**230.6**	26%	21%
Poker	**84.4**	**86.7**	(3%)	(3%)
Bingo	**41.8**	**44.0**	7%	(5%)
Sport[1]	**51.9**	**34.8**	58%	49%
Emerging Offerings[1]	**2.8**	**3.3**	(14%)	(15%)
Total B2C	**460.2**	**399.4**	20%	15%
B2B[1]	**60.6**	**62.7**	6%	(3%)
Revenue	**520.8**	**462.1**	18%	13%

[1] The Group has changed its operating segments in the period to reflect a change in the way that the business is managed and reported internally. Sport is now presented separately, having previously been reported in Emerging Offerings. Brand licensing on third party platforms, which was previously included in Emerging Offerings, is now included in the B2B segment. The comparative segment results for the year ended 31 December 2015 have been re-classified to reflect this change to allow a like for like comparison. Of the Emerging Offerings revenue of US$41.3 million, US$34.8 million has been classified in the Sport segment and US$3.2 million in the B2B segment.

Revenue by geographic market

Revenue from regulated markets increased to represent 61% of total Group revenue while revenue from regulated and taxed markets1 increased to 71% of total revenue (2015: 59% and 68% respectively). This expansion is in line with the Group's strategic priority of targeting growth in sustainable regulated markets.

[1] Regulated and taxed markets refers to jurisdictions where there are regulations in place or where the Group is liable for gaming duties or VAT (or its equivalent).

Table of revenue by geographical market:

	2016 US$ million	2015 US$ million	Growth (decline) from previous year	% of reported Revenue
UK	**223.2**	**212.7**	5%	43%
Europe (excluding UK)	**231.0**	**178.4**	29%	44%
Americas	**44.9**	**48.5**	(7%)	9%
Rest of world	**21.7**	**22.5**	(4%)	4%
Total Revenue	**520.8**	**462.1**	13%	100%

888 continued to deliver growth in the UK market with a revenue increase of 16% year on year at constant currency and 5% increase year on year at reported revenue, driven by strong performances in Casino and Sport and supported by innovative multi-channel marketing initiatives and CRM enhancement enabling effective cross-sell.

Europe's (excluding UK) significant growth of 29% reflects the strong progress delivered across regulated markets mainly in Italy which commenced offering Sport during the first quarter of 2016, and Spain, where a strong product suite offering and successful marketing campaigns are driving growth. The Group also saw new contributions from Denmark and Romania.

Other markets (America and Rest of world) continue to represent smaller proportion of Group's revenue and, as such, fewer resources have been allocated to them, which resulted in a consequent decline in revenues year on year.

Casino

Results overview

Casino continued its outstanding momentum delivering another year of double digit revenue growth. Casino revenue increased 21% to US$279.3 million (2015: US$230.6 million). At constant currency, growth was 26%. Active players rose 27% compared to the prior year and first time depositors increased by 23% despite the strong prior year comparatives.

This very good result reflected further growth on mobile and excellent momentum across a number of regulated markets, notably Spain and Italy. Casino also benefitted from the successful launch of the Group's new 777.com towards the end of 2015 as well as effective cross-sell from other verticals, notably the fast-growing Sport.

Product overview

The success of Casino remains underpinned by our heritage as an online casino operator and innovative customer proposition alongside highly effective CRM and marketing. Casino offers classic table games, such as blackjack and roulette, as well as, exclusive in-house developed proprietary games which differentiate the brand in the market. The Group constantly develops its Casino offer and, during 2016, added 57 new games across mobile and desktop platforms. In addition to our unique content we also provide best-in-class and carefully selected third party content to accommodate all our customers' needs.

Poker

Results overview

In 2016, Poker again outperformed a challenging poker market backdrop to increase first time depositors by 6% and remains a credible alternative for Poker players. Poker revenue for 2016 was US$84.4 million (2015: US$86.7 million). The Poker product continued to be an attractive source of player's acquisition, retention and cross-sell into Casino and Sport. When factoring 888poker's cross-sell contribution, 888Poker revenue did not decline year on year.

Product overview

The Group's Poker continues to be recognised as a premier destination for recreational players and benefit from a fully integrated casino gaming suite and sports betting proposition, supporting the Group's ability to cross-sell effectively. Poker revenue in Q4 2016 was the highest of the year (at constant currency) driven by the successful launch of Poker "BLAST" in July 2016, a "Sit n' Go" Poker tournament format for a pre-set number of players.

888poker prides itself on delivering an incomparable gaming experience with the widest possible range of formats and tournaments. Tournaments are critical to the success of the Poker business, driving both active customers and first time depositors. During the year, 888 hosted four major poker tournaments ("XL Tournaments"), with more prize money on offer to players than ever before. As well as continuing to drive growth through profitable tournaments, in 2017 a major focus will be on growing 888poker by developing new variants and games that are designed to enhance the customer experience on mobile devices.

Sport

Results overview

Sport is an increasingly important market for 888 both in terms of revenue and customer acquisition and, reflecting this, the Group is now presenting Sport as a standalone operational segment.

Following exceptional growth in 2015, Sport delivered another outstanding results in 2016 with revenue for the period of US$51.9 million (2015: US$34.8 million), a 49% increase compared to the prior year and 58% growth at constant currency. Active Sport customers in 2016 increased by 49% and first time depositors increased by 52% year on year. This very strong performance was supported by accelerated marketing investment, growth on mobile and a successful Euro 2016 which demonstrated the Group's ability to successfully compete during major sporting events. 888Sport's continued growth and momentum also benefited from launches into Denmark towards the end of 2015 and Italy during the first quarter of this year.

Product overview

Supported by increased marketing investment and the consistent development of markets and events for customers to enjoy, the 888Sport brand is increasingly recognised by customers as a premier sports betting destination.

As well as agreeing sponsorship deals with four Championship League football clubs to raise the profile of the brand, in September the Group launched a new multi-channel marketing campaign in the UK to support 888Sport's growth.

The new campaign, themed ‘Take’Em On’, is focused away from the noise of simply promoting customer offers and matching odds and has greater emphasis on customer engagement and empowering customers by placing them and their competitive spirit at the center of the 888Sport experience.

We continued to develop our innovative mindset to sports betting with the development of a new ‘Free Bet Hunt’ game for customers. The Free Bet Hunt is a geo-technology game allowing customers to search for free-bet offers when near to particular football stadia. This was a first in the market and captured a wider consumer trend for geo-technology games, helping to drive brand engagement and customer recruitment.

As well as providing a growing revenue stream for 888, Sport is an increasingly important customer acquisition channel for the Group, with the lowest cost per acquisition for new customers across product verticals. Using the Group’s first class CRM and analytics capabilities, as well as leveraging 888’s strong brands in other verticals, 888 remains focused on cross-selling customers to other 888 games and brands as a major driver of the Group’s overall strategy and continued success.

Bingo

Results overview

Bingo active players increased 8% compared to 2015 in a highly competitive and challenging market reflecting the success of marketing activity and CRM as well as the growth of our bingo brands on mobile. Mobile devices represent 54% of Bingo B2C revenue in the UK (2015: 40%). At constant currency, revenue increased by 7% supported in part by newly launched brands, notably Winkslots which offers a wide variety of games.
Reported Bingo revenue was US$41.8 million (2015: US$44.0 million) as a result of a significant adverse currency impact with the vast majority of Bingo revenue denominated in Sterling, which was weaker year on year compared to the US$ the Group’s reporting currency.

Product overview

888 offers online bingo entertainment across a broad range of branded bingo sites, each with its own engaging theme and rich content. During the year, the Group’s bingo brands also continued to benefit from new content including in-house developed games and greater shared progressive jackpots, which together contribute to enhancing and differentiating 888 in this competitive market.

B2B REVIEW

Results overview

Revenue from Dragonfish, 888’s B2B offering, was US$60.6 million (2015: US$62.7 million), with weaker Sterling impacting the results from our UK bingo network. At constant currency, B2B revenue increased 6% to US$66.5 million.

B2B revenue from our USA business was slightly lower compared to prior year reflecting continued operational changes being implemented that are aimed at increasing the long term sustainability of the business.

Operational overview

During 2016 the B2B platform continued to grow with 23 new skins added to the network and our partners continuing to benefit from new features and functionality including the developments of shared jackpots across bingo brands on the network. In the US, our partners in the states of Delaware and New Jersey continued to benefit from our unique interstate network launched in February 2015 that enables the pooling of poker players across the two states.

Dragonfish continued to enjoy success following the launch of the *Casinoflex* brand (the Group's Instant Games Only Platform) towards the end of 2015 with more brands added to the platform during the year. Increased Casino games on offer and integrations with vendors serving to further differentiate the Group's B2B casino offering in the market.

Expenses overview

888's strategic decision to accelerate Sport marketing activities, substantially invest in Casino and drive continued expansion in regulated markets has resulted in increased selling and marketing investment. This investment created strong foundations for outstanding results in Sport, following exceptional growth in 2015, and Casino, with another year of double digit revenue growth.

The continued growth in regulated and taxed markets, which represented 71% of total revenue, resulted in an increase in gaming duties* levied in these markets during the year.

The Group continues to sustain its operating efficiencies, which resulted in a lower expenses to revenue ratio for expenses other than selling and marketing and gaming tax.

Operating expenses

Strong performance of Sport product which is powered by 3rd party platform coupled with the substantial increase in Casino that was supplemented by Live Casino provider, resulted in increased associated charges. This has contributed to the increase of 7% in operating expenses* to US$136.1 million (2015: US$127.4 million).

The proportion of operating expenses* (which mainly comprise employee related costs, commissions and royalties payable to third parties, chargebacks, payment service providers' ("PSP") commissions and costs related to operational risk management services) to revenues decreased to 26.1% (2015: 27.6%) reflecting continued operating efficiencies, strict cost control and the effect of weaker currencies compared to the US$. Reported operating expenses amounted to US$155.1 million (2015: US$146.0 million).

Staff costs as a percentage of revenues was 11%, compared to 12% in prior year, with the reduction primarily a result of moderate cost increase offset by currency movements.

Deposit volumes substantially increased during the year while the chargebacks ratio remained stable at 0.8% (2015: 0.7%) of revenue, reflecting an optimised balance between maintaining revenues and increased deposits inflow whilst reducing transactions with high risk profiles. This was achieved through the continued use of risk management and fraud detection mechanisms which enhance internal monitoring systems, alert processes and reporting including the continued use of 3DSecure verification systems. In addition, during the year the Group intensified its ability to verify members through document submission, an integral part of our regulatory "Know Your Customer" obligations.

Gaming taxes and duties

Further Revenue growth in regulated markets, primarily as a result of the launch of Sport in Italy as well as newly regulated and taxed markets, which commenced activity in the second half of 2015, namely Denmark, Romania and Ireland, resulted in an increase of 21% in Gaming duties* to US$60.5 million (2015: US$50.0 million).
Reported gaming taxes and duties amounted to US$63.5 million (2015: US$58.4 million).

* *As defined in the financial summary table above*

Research and development expenses

Research and development expenses in the income statement decreased to US$34.3 million (2015: US$36.8 million). However, when adding back capitalised development expenses, overall research and development spend would have increased 4% to US$43.9 million (2015: US$42.0 million). This reflects significant investment in regulated markets expansion and the Group's continued focus on product development, including the development of new games, conversion of Flash technology to advanced HTML5 across PC and mobile.

Selling and marketing expenses

888's strategic decision to accelerate Sport and Casino marketing activities and continued expansion in regulated markets has resulted in increased selling and marketing investment of US$170.2 million (2015: US$138.9 million). The marketing to revenue ratio stabilised in the second half of the year at 30.9%, after a peak of 34.4% in the first half of 2016, resulting in an overall 32.7% ratio in 2016 (2015: 30.1%). As a result of this investment, Casino maintained its strong momentum across regulated markets, benefiting from the success of the new 777.com brand launched at the end of 2015.
Sport achieved a 49% revenue increase compared to previous year supported by a very successful Euro 2016, the launches into Denmark towards the end of 2015 and Italy during the first quarter of the year as well as continued brand expansion in the UK with the sponsorship of four Championship football clubs.

Administrative expenses

Administrative expenses* amounted to US$29.5 million (2015: US$28.4 million) but represented a lower proportion of revenue compared to the previous year at 5.7% (2015: 6.2%). The slight increase in administrative expenses is attributed to legal costs associated with the increased focus in regulated markets. Reported administrative expenses amounted to US$36.2 million (2015: US$32.5 million).

* *As defined in the financial summary table above.*

Adjusted EBITDA

Adjusted EBITDA increased 12% to US$90.2 million (2015: US$80.6 million). This is a strong result given external factors during the year including new gaming duties from regulated markets which commenced activity during the second half of 2015, namely Denmark, Romania and Ireland, with costs of US$4.4 million (2015: US$1.7 million), and adverse currency movements, principally as a result of the weaker Sterling. Adjusted EBITDA at constant currency increased 24% to US$100 million. The Adjusted EBITDA margin remained steady at 17.3% (2015: 17.4%) or 18.3% at constant currency. EBITDA for the period increased 34% to US$79.5 million (2015: US$59.3 million).

Share benefit charges

Share benefit charges relate to long-term incentive equity awards granted to eligible employees.

Equity settled share benefit charges of US$6.7 million (2015: US$2.4 million) comprise of new grants during the year and the full year effect of awards granted in previous years and amounted to US$2.4 million and US$4.3 million, respectively.

There are no Cash settled share benefit charges for 2016 (2015: US$1.7 million). Further details are given in the Directors' Remuneration Report in the 2016 Annual Report.

Finance income and expenses

Finance income of US$0.4 million (2015: US$0.3 million) less finance expenses of US$1.7 million (2015: US$2.6 million, excluding exceptional items) resulted in a net expense of US$1.3 million (2015: expense of US$2.3 million). The decrease compared to the previous year is attributable to the fair value of operational hedging instruments.

888 continually monitors foreign currency risk and takes steps, where practical, to ensure that the net exposure is kept to an acceptable level. This has resulted in an income of US$0.9 million in respect of hedging of the foreign exchange movements between US$ and Israeli Shekels. An additional expense of US$2.6 million is attributable to the valuation of assets and liabilities denominated in currencies other than the 888's functional currency mainly impacted by the devaluation of Sterling following the UK's EU membership referendum on 23 June 2016.

Exceptional costs

During 2016 888 incurred exceptional legal and professional costs of US$0.9 million associated with the subsequently aborted proposal for a potential combination between the Group, The Rank Group plc and William Hill plc.

Separately, 888 incurred exceptional retroactive duties and associated charges relating to prior years of US$3.0 million in respect of gaming taxes (2015: US$8.4 million).

In total 888 recorded US$3.9 million (2015: US$23.0 million) of exceptional costs.

Profit before tax

The Group's excellent performance and continued success has resulted in an 82% increase in profit before tax to US$59.2 million (2015: US$32.5 million), representing a ratio of 11% to revenue (2015: 7%).

Taxation and Profit after tax

Profit after tax substantially increased by 75% to US$51.5 million (2015: $29.5 million).
The tax charge for the year was US$7.7 million (2015: US$3.0 million). The higher tax charge is attributed to withholding tax payable on dividends distributed by a subsidiary to the parent company during the year and one off tax credits in 2015 in respect of prior years. In 2015 and early 2016 the Group reached agreement on a number of tax matters with tax authorities in the key jurisdictions from which it operates. Further information on the Group's corporate tax is given in note 8 to 2016 financial statements.

Earnings per share

Basic earnings per share increased 74% to 14.4¢ (2015: 8.3¢). Adjusted basic earnings per share increased 9% to 17.4¢ (2015: 15.9¢). Further information on reconciliation of Adjusted basic earnings per share is given in note 9 to 2016 financial statements.

Dividend

Given the strong results during the year the Board of Directors is recommending a final dividend of 5.1¢ per share in accordance with 888's dividend policy plus an additional one-off 10.5¢ per share bringing the total for the year to 19.4¢ per share (2015: 15.5¢ per share).

Cash flow

The Group's strong performance and operating efficiency led to substantial free cash allowing for dividend payments during the year of US$56.6 million (2015: US$53.5 million).
Cash generated from operating activities amounted to US$68.1 million (2015: US$85.0 million). The decrease is more than offset when adding back US$22.7 million payments in respect of previous periods comprising: US$14.5 million relating to costs incurred during 2015 in respect of UK point of consumption tax, VAT and gaming duties (2015: US$3.0 million) and US$8.2 million in respect of exceptional retroactive duties and associated charges (2015: US$3.2 million).

Balance sheet

888's balance sheet remains strong, with no debt and ample liquid resources. 888's cash position as at 31 December 2016 was US$172.6 million (2015: US$178.6 million) impacted by Sterling's devaluation of US$8.4 million. Balances owed to customers were US$75.7 million (2015: US$82.4 million) effectively reduced by US$3.7 million as a result of the Sterling devaluation.

MARKET REVIEW: GROWTH IN REGULATED MARKETS

UK & Europe

888 continued to deliver strong growth in the core UK market with revenue increasing 16% year on year at constant currency and 5% increase as reported to US$223.2 million (2015: US$212.7 million). This growth was driven primarily by continued momentum in Casino and Sport and supported by cost efficient multi-channel marketing investment and effective customer relationship management.

In August 2017, changes in remote gaming duty impacting customer bonuses in the UK are expected to be implemented that will impact on the competitive dynamics of the industry. However, as a large, established operator with its own gaming platforms and significant experience of adapting to new regulatory environments, 888 remains well positioned to mitigate in part the impact of and capitalise on opportunities presented by these changes.

Europe (excluding UK) revenue continued to expand by 29% to US$231.0 million (2015: US$178.4 million). Within this performance, Spain, which is now the Group's second largest market, continued to grow impressively by 45%, further capitalising on the introduction of slot games midway through 2015 and its Sport offering. The scope, strength and breadth of the Group's offering in Spain is supporting the development of the 888 brand in that market and enabling the Group to capitalise on cross-sell opportunities.

In Italy, the Group continued to grow with revenue rising 66% year on year. This was supported by the launch of 888sport.it in Q1 of the year, supported by online and offline marketing campaigns, which has helped to drive upward trends across the Group's acquisition and activity KPIs. Now with a key Sport product in the Italian market, the Group has a clear opportunity to effectively cross-sell customers to Casino and drive further growth.

In Denmark, 888 delivered a good performance following the Group's launch in that market during 2015. The Group launched in Denmark with a comprehensive suite of Casino, Poker and Sport products across mobile and desktop platforms and this had enabled 888 to quickly build momentum in this exciting market supported by effective online and offline marketing activities.

The Group's significant experience of successfully entering regulated markets and rapidly developing leading positions in those markets means that 888 remains well placed to capitalise on positive regulatory developments across the global industry.

We maintain a close eye on the regulatory environment across Europe and are monitoring developments in a number of countries that are considering or are in the process of reforming their regulatory landscapes. We are following progress in the Netherlands and, on a broader level, continue to assess any potential impact of the UK's decision to leave the European Union on our business in various EU jurisdictions.

United States

Trading in the US market during 2016 remained in line with the Board's expectations. The Group continues to benefit from the successful launch of our shared poker player liquidity across Delaware and Nevada in early 2015 and we continue to believe that pooled liquidity arrangements will be an important feature of future states as and when they regulate.

As the only operator in all three regulated states, 888 has a unique experience of and operational edge in the US market. We continue to monitor the regulatory landscape in the US and we remain confident that 888 is exceptionally well placed to capitalise on future potential regulatory developments as and when they occur.

Risk management strategy

The Board acknowledges that there is no return without risk. However, key risks must be identified, evaluated and where possible quantified in order for the Board to rationally determine how to harness risk to generate optimal return.

In 2016, the Board adopted 888's Risk Management Policy, which aims to explicitly identify and evaluate key risks underlying its core business strategy and standardise the approach to risk prioritisation and management across 888's operations, which in turn means that effective controls can be put in place to ensure 888 is able to manage its operations effectively now and into the future. The risk register has been updated and is being maintained as a springboard for discussion at Board and management level of the role of risk in 888's business. The risk register is a living document which is regularly reviewed on an ongoing basis, serves as a record of the high-level challenges faced by the business over time, and also serves as an action plan. The Board furthermore discussed its approach and response to 888's various risks with a view to setting a clear boundary between acceptable and unacceptable types and levels of risk.

888's culture emphasises the need for employees to take responsibility for managing the risks in their own areas and to transparently and timely report "bad news" and "near miss" incidents, with a willingness to constantly learn and improve.

The Board considers that 888 complies with the requirements of the Financial Reporting Council's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting dated September 2014, and specifically confirms that:

- it is responsible for 888's risk management systems and for reviewing their effectiveness;
- there is an on-going process for identifying, evaluating and managing the principal risks faced by 888;
- the systems have been in place during 2016 and up to the date of approval of the annual report and accounts; and
- they are regularly reviewed by the Board (please see the 2016 Annual Report for further details of the review conducted in 2016).

Risk appetite

Risk is a high priority for the Board and effective risk management is an integral part of the way we conduct our business on a daily basis. The Board factors into the risk assessment impact, likelihood and appetite considerations. Risk is managed across the group in the context of overall risk appetite and the Board considered risk appetite to ensure adequate resources are allocated to the risks. The Board reviewed and approved the following risk appetite statement:

Category of Risk	Tolerance	Risk Parameters
Strategic	Medium	During development and implementation of new propositions and assessing new opportunities including potential transactions, we are prepared to accept medium risks that support our pursuit of growth
Operational	Low to medium	When operating within our business, we have a low to medium tolerance for risk. We will take a cautious approach to risk within our operations, but consider that certain risks will be taken in order to achieve our strategic objectives and maintain our competitive position
Financial	Low	We consider that robust financial controls are necessary to manage our business effectively. All our operating processes are based around policies and procedures that minimise the risk of a loss of financial control.
Compliance	Extremely low to zero	We have an extremely low to zero tolerance when complying with laws and regulations that relate to bribery, corruption and AML. We have controls in place that are designed to mitigate these risks, and detailed and tested procedures in place for dealing with these types of scenarios when they arise.

888 faces the following significant risks:

Regulatory risk ➔ increased during 2016

The risk: The regulatory framework of online gaming is dynamic and complex. Change in the regulatory regime in a specific jurisdiction can 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 several of those jurisdictions 888 holds licences. However, in some cases, lack of clarity in the regulations, or conflicting legislative and regulatory developments, mean that 888 may risk failing to obtain an appropriate licence, having existing licences 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 licences to 888.

Relevance to strategy: Compliance with regulatory requirements and the maintenance of regulatory relationships in multiple jurisdictions is key to maintaining 888's online gaming licences which are critical to the operation and growth of its online gaming business. In addition, 888 may be exposed to claims in jurisdictions which do not regulate online gaming, seeking to block access to 888's offering of players located in such jurisdiction. A robust understanding of the legal and regulatory position in key locations worldwide is crucial to mitigating this risk.

How the risk is managed: 888 manages its regulatory risk by routinely consulting with legal advisers in the jurisdictions where its services are offered or are accessible, where necessary obtaining formal legal opinions from local counsel. Furthermore, 888 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. 888 constantly adapts and moderates its services to comply with legal and regulatory requirements. Finally, 888 blocks players from certain "blocked jurisdictions" using multiple technological methods as appropriate.

What happened in 2016: In light of increased regulatory scrutiny and a review of enforcement policy in the UK, 888 commenced a review process with its English counsel aimed to enhance and improve its internal processes related to customer on boarding, AML and responsible gaming, a process which is ongoing. Consistent with its growth strategy in regulated markets, 888 obtained a permanent gambling licence in Romania.

Brexit-related risks ➔ increased during 2016

The risk: The proposed status of Gibraltar in relation to the United Kingdom as a result of "Brexit" is at present unclear. If 888 were to remain registered, licenced and operating in Gibraltar in these circumstances, its ability to rely on EU freedom of services / establishment principles in supplying its services within the EU will be limited; furthermore, it may become ineligible to continue to hold regulatory licenses in certain EU jurisdictions. "Brexit" could adversely affect economic or market conditions in the United Kingdom, Europe or globally and could contribute to instability in global financial markets, in particular until there is more certainty as to the form that "Brexit" will take and its effect on Gibraltar, the United Kingdom and the EU.

Relevance to strategy: The ability to rely on EU principles underpins 888's regulatory strategy regarding major EU markets.

How the risk is managed: 888 would not be able to control or mitigate political changes of this nature, however it would reconsider the appropriateness of remaining registered, licenced and operational in Gibraltar in these circumstances. Malta may be considered as an alternative "dot com" licensing jurisdiction.

What happened in 2016: On June 23, 2016, it was decided by UK referendum that the UK should leave the EU. However, the UK Prime Minister has not yet given written notice under Article 50 of the Treaty on European Union, which would then start an up to two-year negotiation period on the terms of exit and the relationship between the UK and the EU following exit.

Information Technology and Cyber Risks ➔ remained stable during 2016

The risk: IT systems may be impacted by unauthorised access, cyber-attacks, DDoS (Distributed Denial of Service) attacks, theft or misuse of data by internal or external parties, or disrupted by increases in usage, human error, natural hazards or disasters or other events. 888 processes a large quantity of personal customer data including sensitive data such as name, address, age, bank details and gaming / betting history as part of its business; such data could be wrongfully accessed or used by employees, customers, suppliers of third parties, or lost or disclosed or processed in breach of data protection regulation. Cyber-attack and data theft incidents may expose 888 to "ransom" demands and costs of repairing physical and reputational damage. Failure of IT systems, infrastructure or telecommunications / third party infrastructure may cause significant cost and disruption to the business and harm revenues. 888 could also face liability under data protection laws and could be exposed to action by government agencies or private litigation and loss of customer goodwill and confidence. Lengthy down-time of the site (including in transitioning to activated disaster recovery servers) could also cause 888 to breach regulatory obligations.

Relevance to strategy: As an online B2C and B2B business, the integrity of 888's IT infrastructure is crucial to the supply of its offerings and compliance with its regulatory obligations. The holding and processing of sensitive data in a lawful and robust manner is furthermore central to 888's analytics-based business strategy. These are also key to maintenance of the impressive customer loyalty with which 888 is entrusted.

How the risk is managed: Cutting-edge technologies and procedures are implemented throughout 888's technology operations and designed to protect its networks from malicious attacks and other such risks. These measures include traffic filtering, anti-DDoS devices and Anti-Virus protection from leading vendors. Physical and logical network segmentation is also used to isolate and protect 888'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 888'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 on a regular basis. 888 has a disaster recovery site to ensure full recovery in the event of disaster. 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 888's critical services, the business can be fully recovered through the resources available at the disaster recovery site. In order to minimise dependence on telecommunication service providers, 888 invests in network infrastructure redundancies whilst regularly reviewing its service providers. 888 has two Internet service providers in Gibraltar in order to minimise reliance on one provider. As a part of its monitoring system, 888 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.

What happened in 2016: At 888, IT security is deeply embedded within the organisation, and security projects are implemented on a constant ongoing basis. Awareness training is carried out for Group personnel at all office locations by the CISO. Software development personnel are trained in IT security and computerised systems monitor coding vulnerabilities in real time and provide timely notifications to management. Various IT security projects were implemented by 888's IT Department under the guidance of its IT Security Committee. 888 continued to undergo regular IT security audits, including reviews by the internal IT team and external audit by gaming regulators.

Taxation risk ➔ increased during 2016

The risk: Heightened attention to matters of cross-border taxation, including through the G20/OECD Base Erosion and Profit Shifting (BEPS) project, as well as in other public forums and the media, has increased the likelihood of scrutiny of tax practices by tax authorities in relevant jurisdictions. A finding of taxable presence of the 888 group in one or more jurisdictions (including pursuant to revised interpretations of the permanent establishment concept as considered in the BEPS reports), or a transfer pricing adjustment with respect to attribution of profit to such jurisdiction(s), may have a substantial impact on the amount of income tax or VAT paid by 888. The introduction of the UK Diverted Profits Tax also gives rise to a risk that, whilst 888 carries out its operations from Gibraltar and has a considerable presence there, elements of its business carried out from the UK may be found to consistute an "avoided PE" giving rise to tax at a rate of 25% of the profit attributed to such avoided PE. The possible imposition by the UK of "use and enjoyment" rules with respect to advertising, which could be implemented during 2017 or 2018, may significantly increase 888's UK-facing marketing expense; the UK VAT rate is presently 20%. The UK Finance Bill 2017 provisions pursuant to which free plays will be treated as taxable for Remote Gaming Duty purposes is expected to have an adverse tax impact on 888 with effect from 1 August 2017; however, questions remain regarding how this will be implemented in practice. Uncertainties with regard to the application of VAT to certain of 888's offerings and the tax base to be applied thereto also gives rise to the risk of disputes with tax authorities, as do the imposition of gaming taxes in jurisdictions in which 888 has customers but does not hold a local licence. Furthermore, the imposition in certain jurisdictions of taxation of player winnings and/or imposition of a withholding obligation on foreign operators may make 888's offerings less attractive to players in relevant jurisdictions.

Relevance to strategy: In addition to the financial consequences of a challenge to 888's tax structure, tax compliance – and being seen to be paying the "right amount" of tax – is becoming a serious reputational issue as well as being a regulatory compliance issue. As such, it is crucial that 888 has a solid basis for its tax positions taken in relevant jurisdictions.

How the risk is managed: 888 aims to ensure that each legal entity within its group is a tax resident of the jurisdiction in which it is incorporated and has no taxable presence in any other jurisdiction. In addition, certain jurisdictions impose tax by reference to customers' activity, regardless of whether 888 has a taxable presence in such jurisdiction. In this respect, 888 incurred VAT in certain countries in which certain of its online gaming offerings are considered services subject to VAT. Furthermore, jurisdictions in which online gaming is regulated impose gaming duties on licensed operators and in some cases even on unlicensed operators. In this respect, 888 monitors and seeks to comply with its legal obligations in various jurisdictions, whilst taking such action as is necessary to prevent the improper imposition of unlawful or double taxation.

What happened in 2016: 888 entered into discussions with relevant tax authorities in order to regularise its tax position and mitigate exposures. In addition, it reviewed its structure in light of the BEPS recommendations and consulted with tax and legal advisers to determine the manner and timing of their implementation in relevant jurisdictions, in order to ensure compliance with increased tax reporting obligations. 888 furthermore took advice with regard to VAT and gaming duty obligations and registered for such taxes in relevant jurisdictions in order to ensure timely reporting and payment on the correct basis in the appropriate jurisdictions, whilst reserving its position concerning contesting its liability in appropriate cases. 888 is furthermore closely following the UK developments regarding taxation of free plays for Remote Gaming Duty purposes, and possible imposition of "use and enjoyment" VAT rules regarding advertising, directly and via relevant industry bodies, as well as preparing mitigation actions.

Reputational risk➔ remained stable during 2016

The risk: The reputation of 888 is affected by the profile of both other online gaming and betting operators, as well as the gaming and betting industry as a whole. The perception could therefore develop that minors and vulnerable players are not adequately protected, and there could also be claims for damages due to compulsive gambling. It is also difficult to ensure that affiliate marketers ethically source reliable data for marketing purposes such that advertising codes can be strictly adhered to and only appropriate age groups or demographics are targeted.

Relevance to strategy: Underage and problem gaming are risks associated with an online gaming business, and ensuring compliance with regulatory requirements for the protection of vulnerable people is critical to maintaining 888's online gaming licences.

How the risk is managed: 888 devotes resources to putting in place prevention measures coupled with strict internal procedures to protect customers, and monitor and update their procedures to ensure that minors are unable to access their gaming sites. Staff are trained to provide a safe gaming experience to customers and to recognise and take appropriate actions if they identify compulsive or underage activity. 888 also complies with eCOGRA guidelines to protect customers. Web links to professional help agencies are provided on 888's real money gaming sites, and 888 has a dedicated website which provides information regarding responsible gaming. Players can also limit their play pattern or request to be self-excluded. 888 furthermore – directly or via industry bodies – seeks to ensure that legislators and regulators are provided with accurate and useful information regarding protections against problem and underage gaming.

What happened in 2016: 888 continued to invest in staff training and procedures to identify instances of problem gambling and fraudulent behaviour, as well as reviewing and optimising responsible gaming tools such as self-limits, take a break and self-exclusion, continuing to monitor the effectiveness of responsible gaming measures, and continuing its close partnerships with major helping agencies and support centers. 888 furthermore updated its business practices in order to comply with specific new regulatory requirements imposed in its major regulated markets, including responsible gaming measures required under the UK Gambling Commission's Licensing Conditions and Codes of Practice. In this context, 888 implemented a new version of its player behaviour monitoring system during 2016.

Partnership Risk ➔ remained stable during 2016

The risk: 888 has in recent years rationalised its B2B contracts to focus on fewer, higher-value contracts. This exposes 888 more to termination or reduction of volume under existing B2B contracts.

Relevance to strategy: B2B is a material part of 888's business. 888's key B2B contracts in terms of financial impact are its major Bingo B2B contracts; in addition, its US B2B contracts have strategic importance for the longer term.

How the risk is managed: Whilst 888 generally protects itself contractually in this respect, it is often not commercially practicable to compel B2B partners to continue utilising the Dragonfish platform in the long-term.

The main method of mitigation is therefore to maintain commercial relevance in terms of the functionality and technology of the B2B platform offered, competitive pricing, maintaining an ongoing relationship with B2B partners, and ensuring that 888 has a good understanding of the needs of its B2B partners and their owners.
What happened in 2016: During the year, 888 maintained its ongoing dialogue with major B2B partners, with a view to continued renewal of contracts aligned with 888's strategy, and mitigation of the risk of termination of contracts due to changes in partner circumstances.

Regulation and general regulatory developments

As a business operating in a highly regulated environment, which is deeply committed to operating in a lawful, compliant and responsible manner, 888 is profoundly impacted by regulatory changes related to its business operations.

The online gambling industry underwent a number of legal and regulatory changes in jurisdictions around the world during 2016. Each such change initiated an internal review process within 888, aimed at analysing the potential opportunities, and managing potential risks, resulting from each such change.

Although changes were often unforeseen and inconsistent, which called for constant vigilance, 888 remains a strong proponent of the forming of strong regulatory regimes. Such regimes would, in 888's view, contribute towards advancing the online gambling industry in its entirety, providing added clarity and certainty in the business environment, benefitting regulators and compliant, responsible operators alike. Strong, well-structured frameworks inevitably trickle down and ultimately improve the services provided to customers, enhancing operators' reliability.

Naturally, with regulation playing an increasingly dominant role in defining and framing our business, 888 continues to monitor closely global legal and regulatory developments and to assess their impact on 888's operations. We continue to support regulation of the industry and to work with our partners in the industry and with our regulators towards shaping a regulatory landscape that is business-friendly while safeguarding the objectives of regulation.
The following paragraphs summarise the main relevant regulatory developments of 2016 and our expectations regarding changes that will impact 888 in 2017.

Europe

The general trend throughout the European Union in 2016 was the continued strive towards local regulation by individual member states. Some of those efforts were directed towards amending local law so that it will better comply with EU law, and some focused on bolstering existing, non-EU law compliant regimes.

There were no significant actions taken by the European Commission with respect to online gambling in 2016. Other than minimal action with respect to member states whose gaming laws are considered to infringe EU law (such as Greece), the European Commission took very little action directly related to the regulation of online gambling.
Nonetheless, there were a number of general EU law developments which also impacted the online gambling industry. For example, new requirements relating to consumer dispute resolution came into force at the beginning of 2016. As a business incorporated and licensed in various EU member jurisdictions, 888 is directly impacted by these changes and will continue to be impacted by future changes (such as the entry into force of the 4th AML Directive now scheduled for mid-2017).

Several regulatory developments in specific European jurisdictions affected 888's operations in 2016:

- As in 2015, the UK's move to a place-of-consumption based regulatory regime continued to have a dramatic impact on 888 in 2016, given the prominence of 888's UK-facing operations. 888's continued adaptation to the new metrics and regulatory requirements of the UK market continued to necessitate significant efforts and the implementation of changes in many areas of the business. 888's continued prominence in the UK market speaks to the overall success of that process, however we continue to work to adapt our operations and working modalities to ensure ongoing adherence to the various (and evolving) requirements applicable to our UK operations.

- During the course of 2016, the Group was awarded a permanent operating licence in Romania, after operating based on an interim licence since its application for Romanian licensure in 2015.
- The regulatory landscape in Germany as a whole continued to be mired by uncertainty in 2016 with courts in various German states issuing conflicting rulings with respect to the validity and interpretation of the German Inter-State Gambling Treaty (the "Treaty"). The tender process for the award of 20 sports-betting licenses has been suspended (possibly indefinitely), and local attempts at regulating the industry in other manners (such as the Hesse "toleration" process which was aimed at regulating local provision of remote sports betting services in Hesse) were unsuccessful. It is unclear how the regulatory landscape in Germany will evolve in 2017 as the term of the current Treaty nears expiry.
- In late 2016, the Norwegian government published a white paper on the country's gambling policy, supporting the existing monopoly model.
- The Greek Government's announcements during 2015 and 2016 of plans to put a licensing regime in place as a revenue-generating measure have yet to materialise.
- Switzerland pushed on its draft bill that would allow the country's casinos to offer online gaming. The bill has now unanimously passed the upper house of the Federal Assembly of Switzerland and is due to be brought before the lower house early in 2017, which supports website blocking of unauthorized operators. However, implementation of these changes is not anticipated earlier than 2019.
- Regulatory reform in The Netherlands is still pending, after the Dutch lower house of parliament passed a bill to regulate online gambling in July 2016, which is now pending before Senate. 888 continued to conduct its operations in The Netherlands in accordance with interim guidelines issued by the local authorities and awaits developments in this important market. However, reasonable estimates do not predict final change in this respect sooner than 2018.
- In the course of 2016, several European regulators have expressed their intent to promote the sharing of poker liquidity within Europe and beyond. Such statements were made by regulators from the UK, France, Italy, Spain and Portugal. In November 2016, an informal meeting of the abovementioned regulators on the issue took place, where it was concluded that efforts would be made to reach agreed liquidity sharing arrangements by mid-2017. Consequently, in late 2016, France adopted a bill allowing the French gaming regulator to enter into liquidity sharing agreements with other EU / EEA member states. In addition, early in 2017, Portugal notified draft technical standards for such liquidity sharing to the European Commission, in preparation of possible future liquidity sharing agreements with EU member states.

The United States

In 2016, 888 continued to operate in the US online gaming market with activity in all three states in which commercial internet gaming is operational – Nevada, New Jersey and Delaware. 888 continues to be the only online gaming operator authorised to conduct business in each of these jurisdictions.

Despite debates in the legislatures of various states regarding online gaming (in some cases – online poker) during 2016, no significant legislative changes occurred. 888 continues to closely monitor discussions and initiatives in the various jurisdictions, with the knowledge that positive developments in these large-scale markets could present tremendous opportunities for 888.

- The New York state legislature debated a bill in 2016 to regulate online provision of poker. The bill was stalled after passing the state senate. This legislative initiative is likely to recommence in 2017.
- In addition, we anticipate another attempt on New York's side to try and challenge the federal prohibition on sports betting embodied in the Professional and Amateur Sports Protection Act of 1992 ("PASPA"). 2017 will most likely see a new bill being introduced in an attempt to regulate sports betting within the State of New York, which if passed, is expected to be challenged immediately in federal court.
- The state of New Jersey continued its legal challenges to the federal prohibition on sports betting and made its appeal to the Supreme Court on the matter in late 2016. A decision by the Court whether to hear New Jersey’s appeal is expected in early 2017.
- In 2016, the California state legislature debated a bill for the regulation of online poker. However, the bill ended up being abandoned mid-year. Pennsylvania made a similar effort to amend an existing bill on slot machine tax to include text authorising casinos to offer internet gambling in late 2016. This bill was similarly abandoned but may be reintroduced in 2017.

The 2016 election cycle brought with it uncertainty about changes that may take place in the US’s approach (federal and state alike) towards gambling in coming years. The incoming US Attorney General, Jeff Sessions, commented in his Senate confirmation hearing that he intended to review the DOJ’s position on the interpretation of the Federal Wire Act which is the keystone to the current remote casino and poker offerings in the US. Also on the federal level, a bill has been proposed to levy a federal tax on gambling-related income. As of yet, the position of the Trump administration on gambling issues remains uncertain.

On the state level, various legislative initiatives are already surfacing which would seek to introduce online gaming on the intra-state level.

888 will, of course, continue to follow these developments as they evolve.

Further afield

In 2016, the Australian Government presented draft legislation to Parliament aimed at strengthening the 2001 Interactive Gambling Act's prohibition on online gaming.

As anticipated, regulatory reform reached Latin America in 2016, with Colombia adopting a regime for the regulation and licensing of online gambling and sports betting.

Further reforms may be brought forward in 2017, in places such as Mexico and Brazil.
The Indian State of Nagaland adopted a regime for the regulation of online games of skill in 2016.

888 continues to follow these developments to assess their impact on our business and to identify potential opportunities for growth.

Directors' statement of responsibilities

We confirm, to the best of our knowledge:

(a) the financial statements, prepared in accordance with 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 888 and the undertakings included in the consolidation taken as a whole; and

(b) the strategic report includes a fair review of the development and performance of the business and the position of 888 and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

On behalf of the Board:

Itai Frieberger

Chief Executive Officer

21 March, 2017

Consolidated Income Statement

For the year ended 31 December 2016

	Note	2016 US $ million	2015 US $ million
Revenue	3	**520.8**	462.1
Operating expenses		**(155.1)**	(146.0)
Gaming duties	4	**(63.5)**	(58.4)
Research and development expenses		**(34.3)**	(36.8)
Selling and marketing expenses		**(170.2)**	(138.9)
Administrative expenses		**(36.2)**	(32.5)
Exceptional acquisition costs	5	**(0.9)**	(17.5)
Exceptional acquisition income	5	**-**	8.8
Operating profit before exceptional costs and share benefit charge		**71.2**	**62.0**
Exceptional items	5	**(3.9)**	(17.1)
Share benefit charge	21	**(6.7)**	(4.1)
Operating profit	4	**60.6**	**40.8**
Finance income	7	**0.4**	0.3
Finance expenses	7	**(1.7)**	(2.6)
Exceptional finance expenses	5	**-**	(5.9)
Share of post-tax loss of equity accounted joint ventures and associates	13	**(0.1)**	(0.1)
Profit before tax		**59.2**	**32.5**
Taxation	8	**(7.7)**	(3.0)
Profit after tax for the year attributable to equity holders of the parent		**51.5**	**29.5**
Earnings per share	9		
Basic		14.4¢	8.3¢
Diluted		14.1¢	8.2¢

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2016

	Note	2016 US $ million	2015 US $ million
Profit for the year		**51.5**	29.5
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		**(0.8)**	(1.1)
Items that will not be reclassified to profit or loss			
Remeasurement of severance pay liability	6	**(0.5)**	(1.1)
Total other comprehensive expense for the year		**(1.3)**	**(2.2)**
Total comprehensive income for the year attributable to equity holders of the parent		**50.2**	**27.3**

The notes below form part of these consolidated financial statements.

Consolidated Balance Sheet
At 31 December 2016

	Note	2016 US $ million	2015 US $ million
Assets			
Non-current assets			
Goodwill and other intangible assets	11	**158.6**	157.3
Property, plant and equipment	12	**9.1**	11.2
Investments	13	**1.5**	1.6
Non-current receivables	16	**0.7**	0.8
Deferred tax assets	14	**1.1**	1.2
		171.0	**172.1**
Current assets			
Cash and cash equivalents	15	**172.6**	178.6
Trade and other receivables	16	**35.9**	32.9
Income tax receivable		**1.1**	2.7
		209.6	**214.2**
Total assets		**380.6**	**386.3**
Equity and liabilities			
Equity attributable to equity holders of the parent			
Share capital	17	**3.2**	3.2
Share premium	17	**3.3**	2.2
Retained earnings		**157.1**	156.8
Total equity attributable to equity holders of the parent		**163.6**	**162.2**
Liabilities			
Current liabilities			
Trade and other payables	18	**139.3**	137.2
Income tax payable		**0.1**	2.8
Customer deposits	19	**75.7**	82.4
		215.1	**222.4**
Non-current liabilities			
Deferred tax liabilities	14	**1.9**	1.7
Total liabilities		**217.0**	**224.1**
Total equity and liabilities		**380.6**	**386.3**

The notes below form part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

	Share capital US $ million	Share premium US $ million	Retained earnings US $ million	Foreign currency translation reserve US $ million	Total US $ million
Balance at 1 January 2015	3.2	1.3	181.1	(0.5)	185.1
Profit after tax for the year attributable to equity holders of the parent	-	-	29.5	-	29.5
Other comprehensive expense for the year	-	-	(1.1)	(1.1)	(2.2)
Total comprehensive income	-	-	28.4	(1.1)	27.3
Dividend paid (note 10)	-	-	(53.5)	-	(53.5)
Equity settled share benefit charges (note 21)	-	-	2.4	-	2.4
Issue of shares to cover employee share schemes (note 17)	-	0.9	-	-	0.9
Balance at 31 December 2015	**3.2**	**2.2**	**158.4**	**(1.6)**	**162.2**
Profit after tax for the year attributable to equity holders of the parent	-	-	51.5	-	51.5
Other comprehensive expense for the year	-	-	(0.5)	(0.8)	(1.3)
Total comprehensive income	-	-	51.0	(0.8)	50.2
Dividend paid (note 10)	-	-	(56.6)	-	(56.6)
Equity settled share benefit charges (note 21)	-	-	6.7	-	6.7
Issue of shares to cover employee share schemes (note 17)	-	1.1	-	-	1.1
Balance at 31 December 2016	**3.2**	**3.3**	**159.5**	**(2.4)**	**163.6**

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 and other transactions with equity holders.
Foreign currency translation reserve – represents exchange differences arising from the translation of all Group entities that have functional currency different from US$.

The notes below form part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	Note	2016 US $ million	2015 US $ million
Cash flows from operating activities			
Profit before tax		**59.2**	32.5
Adjustments for:			
Depreciation	12	**8.4**	8.9
Amortisation	11	**10.6**	9.7
Interest income	7	**(0.4)**	(0.3)
Interest expense	7	**-**	0.2
Share of post- tax loss of equity accounted joint ventures and associates	13	**0.1**	0.1
Share benefit charges	21	**6.7**	4.1
		84.6	55.2
Increase in trade receivables	16	**(1.8)**	(0.1)
Increase in other accounts receivables	16	**(2.5)**	(1.6)
(Decrease) increase in customer deposits	19	**(5.7)**	12.9
Decrease in foreign exchange derivatives	7	**-**	(2.5)
Increase in trade and other payables	18	**2.7**	27.1
Cash generated from operations		**77.3**	91.0
Income tax paid		**(9.2)**	(6.0)
Net cash generated from operating activities		**68.1**	**85.0**
Cash flows from investing activities			
Acquisition of investment in equity accounted associates	13	**-**	(1.5)
Acquisition of property, plant and equipment	12	**(6.3)**	(4.6)
Interest received	7	**0.4**	0.3
Acquisition of intangible assets	11	**(1.3)**	(3.0)
Internally generated intangible assets	11	**(10.6)**	(6.8)
Net cash used in investing activities		**(17.8)**	**(15.6)**
Cash flows from financing activities			
Issue of shares to cover employee share schemes	17	**1.1**	0.9
Dividends paid	10	**(56.6)**	(53.5)
Net cash used in financing activities		**(55.5)**	**(52.6)**
Net (decrease) increase in cash and cash equivalents		**(5.2)**	**16.8**
Net foreign exchange difference		**(0.8)**	(1.3)
Cash and cash equivalents at the beginning of the year	15	**178.6**	163.1
Cash and cash equivalents at the end of the year[1]	15	**172.6**	178.6

[1] Cash and cash equivalents includes restricted short-term deposits of US$1.1 million (2015: US$3.3 million) (see note 15).

Included in net cash generated from operating activities are amounts paid during 2016 in respect of exceptional items of US$9.1 million (2015: net payment of US$17.8 million).

The notes below form part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1 General information

The financial information does not constitute the Group's statutory accounts for the year ended 31 December 2016 or the year ended 31 December 2015, but is derived from those accounts.

Statutory accounts for the year ended 31 December 2015 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 2016 will be filed with Companies House Gibraltar following the Company's Annual General Meeting. The auditors have reported on both the 2016 and 2015 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 in the British Virgin Islands and since 17 December 2003 has been domiciled in Gibraltar (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 and games, Poker, Bingo, Sport, Emerging Offerings (comprising Mytopia social games), and brand licensing revenue on third party platforms. These services are provided to end users ("B2C") and to business partners through its business to business unit, Dragonfish ("B2B"). 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 IFRS 10 - Consolidated Financial Statements) and whose accounts are consolidated with those of the Company.
Related parties	As defined in IAS 24 - Related Party Disclosures.
Joint ventures and associates	As defined in IFRS 11 - Joint Arrangements and IAS 28 – Investments in Associates and Joint Ventures.

2 Significant accounting policies

The significant accounting policies applied in the preparation of the consolidated 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 ("IFRSs"), including International Accounting Standards ("IAS") and Interpretations adopted by the International Accounting Standards Board ("IASB"), endorsed for use by companies listed on an EU regulated market. The consolidated financial statements have been prepared on a historical cost basis, except for available for sale investments and derivative financial instruments, which have been measured at fair value.

The Group has changed its operating segments in the year to reflect a change in the way that the business is managed and reported internally. Sport is now presented separately, having previously been reported in Emerging Offerings. Brand licensing on third party platforms, which was previously included in Emerging Offerings, is now included in the B2B segment. The comparative segment results for the year ended 31 December 2015 have been restated to reflect this change, as described in note 3.

Notes to Consolidated financial statements (continued)

The consolidated 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 Act 2014.

The significant accounting policies applied in the consolidated financial statements in the prior year have been applied consistently in these consolidated financial statements, with the exception of the amendments to accounting standards adopted during 2016. These are described in more detail below.

The following amendments to IAS, issued by the IASB and adopted by the EU, were effective from 1 January 2016 and have been adopted by the Group during the year with no significant impact on its consolidated results or financial position:

- Amendments to IAS 1 - Disclosure Initiative.
- Amendments to IAS 16 and IAS 38 - Clarification of Acceptable Methods of Depreciation and Amortisation.
- Amendments to IAS 27 – Equity Method in Separate Financial Statements.
- Amendments to IFRS 10, IFRS 12 and IAS 28 - Investment Entities: Applying the Consolidation Exception.
- Amendments to IFRS 11 – Accounting for Acquisitions of Interests in Joint Operations.
- Annual Improvements 2012-2014 Cycle, including minor amendments to IFRS 5 - Non-Current Assets Held for Sale and Discontinued Operations, IFRS 7 - Financial Instruments: Disclosures, IAS 19 - Employee Benefits and IAS 34 - Interim Financial Reporting.

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

- Amendments to IAS 7 – Disclosure initiative (effective for accounting periods beginning on or after 1 January 2017).
- Amendments to IAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses (effective for accounting periods beginning on or after 1 January 2017).
- Annual Improvements Process IFRS 12 - Disclosure of Interests in Other Entities (effective for accounting periods beginning on or after 1 January 2017).
- IFRS 9 - Financial Instruments (effective for accounting periods beginning on or after 1 January 2018).
- IFRS 15 - Revenue from Contracts with Customers (effective for accounting periods beginning on or after 1 January 2018).
- Amendments to IFRS 2 – Classification and Measurement of Share-based Payment Transactions (effective for accounting periods beginning on or after 1 January 2018).
- Amendments to IAS 40 – Transfer of Investment Property (effective for accounting periods beginning on or after 1 January 2018).
- IFRIC Interpretation 22 – Foreign Currency Transactions and Advance Consideration (effective for accounting periods beginning on or after 1 January 2018).

- Annual Improvements Process IFRS 1 - First-time Adoption of International Financial Reporting Standards (effective for accounting periods beginning on or after 1 January 2018).

- Annual Improvements Process IAS 28 - Investments in Associates and Joint Ventures (effective for accounting periods beginning on or after 1 January 2018).

- IFRS 16 – Leases (effective for accounting periods beginning on or after 1 January 2019).

- Amendments to IFRS 10 and IAS 28 - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (in December 2015, the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting).

2 Significant accounting policies (continued)

Critical accounting estimates and judgments

The preparation of consolidated financial statements under IFRS as adopted by the EU requires the Group to make estimates and judgements that affect the application of policies and reported amounts. Estimates and judgements 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.

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 in the future. These policies together with references to the related notes to the financial statements, which include further commentary on the nature of the estimates and judgements made, can be found below:

Revenue
The Group applies judgement in determining whether it is acting as a principal or an agent where it provides services to business partners through its business to business unit. In making these judgements the Group considers, by examining each contract with its business partners, which party has the primary responsibility for providing the services and is exposed to the majority of the risks and rewards associated with providing the services, as well as if it has latitude in establishing prices, either directly or indirectly. This is described in further detail in the revenue accounting policy set out below.

Taxation
Due to the international nature of the Group and the complexity of tax legislation in the jurisdictions in which it operates, the Group applies judgement in estimating the likely outcome of tax matters and the resultant provision for income taxes. However, in 2015 and early 2016 the Group reached agreement on a number of tax matters with tax authorities in the key jurisdictions from which it operates. These agreements materially reduce the level of judgement to be made in preparing the financial statements. The Group believes that its accruals for tax liabilities are appropriate. For further information see note 8.

Impairment of goodwill and other intangible assets
Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which the goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. For further information see note 11.

Internally generated intangible assets
Costs relating to internally generated intangible assets, are capitalised if the criteria for recognition as assets are met. The initial capitalisation of costs is based on management's judgment that technological and economic feasibility criteria are met. In making this judgement, management considers the progress made in each development project and its latest forecasts for each project. Other expenditure is charged to the consolidated income statement in the year in which the expenditure is incurred. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. For further information see note 11.

Contingent liabilities and regulatory matters
The Group makes a number of judgements in respect of the accounting for and disclosure of expenses and contingent liabilities for regulatory matters, including gaming duties. These are described in further detail in note 26.

2 Significant accounting policies (continued)

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 power over an entity; exposure, or rights, to variable returns from its involvement with an entity; and the ability to use its power over an entity to affect the amount of its returns. Subsidiaries are consolidated from the date the Parent gained control until such time as control ceases.

The financial statements of 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.

Intercompany 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 promotional bonuses granted to customers and VAT, and after adding the fees and charges applied to customer accounts, and is measured at the fair value of the consideration received or receivable.

Revenue consists of income from online activities and income generated from foreign exchange commissions on customer deposit and withdrawals and account fees, 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, adjusted for the fair value of certain promotional bonuses granted to customers and the value of loyalty points accrued.

Poker
Poker online gaming revenue represents the commission charged from each poker hand in ring games and entry fees for participation in Poker tournaments less the fair value of certain promotional bonuses and the value of loyalty points accrued. In Poker tournaments entry fee revenue is recognised when the tournament has concluded.

Sport
Sport online gaming revenue comprises bets placed less payouts to customers, adjusted for the fair value of open betting positions.

Emerging Offerings
Revenue from Emerging Offerings is mainly comprised of Social games. Revenue represents the Group’s share from the sale of virtual goods to customers playing the Group’s games.

B2B
Revenue from B2B is mainly comprised of services provided to business partners and brand licensing on third party platforms.

- For services provided to business partners through its B2B unit, the Group considers whether for each customer it is acting as a principal or as an agent by considering which party has the primary responsibility for providing the services and is exposed to the majority of the risks and rewards associated with providing the services, as well as if it has latitude in establishing prices, either directly or indirectly:

- 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 marketing expenses.
- In other cases income is recognised as the Group share of the net revenue generated from use of the Group's platform.
- B2B also includes fees from the provision of certain gaming related services to partners.
- Customer advances received are treated as deferred income within current liabilities and released as they are earned.

- Revenue derived from brand licensing on third party platforms represents the Group's net revenue share from that activity.

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 and corporate professional expenses, both of which are recognised on an accruals basis.

Exceptional items

The Group classifies and presents certain items of income and expense as exceptional, as the Group considers that it allows for a better reflection of the underlying performance of the Group. The Group also seeks to present a measure of underlying performance which is not impacted by exceptional items. These measures are described as "adjusted" and are used by the management to measure and monitor the Group's underlying performance.The Group considers any non-recurring items of income and expense for classification as exceptional by virtue of their nature and size. The items classified as exceptional (and are excluded from the adjusted measures) are described in further detail in note 5.

Foreign currency

Monetary assets and liabilities denominated in currencies other than the functional currency of the relevant company are translated into that functional currency 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 in the consolidated income statement, as appropriate.

The results and financial position of all Group entities that have a functional currency different from US$ are translated into the presentation currency at foreign exchange rates as set out below. Exchange differences arising, if any, are recorded in the consolidated statement of comprehensive income as a component of other comprehensive income.

(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 (continued)

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. They are accounted for using the balance sheet liability method. Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profits 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

Acquired intangible assets
Intangible assets acquired separately consist mainly of software licences and domain names and are capitalised at cost. Those acquired as part of a business combination are recognised separately from goodwill if the fair value can be measured reliably. These intangible assets are amortised over the useful life of the assets, which for software licences is between one and five years and for domain names is five years.

Internally generated intangible assets
Expenditure incurred on development activities of gaming platform 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.

Goodwill and business combinations

Goodwill represents the excess of the fair value of the consideration in a business combination over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities acquired. Consideration comprises the fair value of any assets transferred, liabilities assumed and equity instruments issued.

Goodwill is capitalised as an intangible asset with any impairment in carrying value being charged to the consolidated income statement and not subsequently reversed. Where the fair values 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. Changes in the fair value of the contingent consideration are charged or credited to the consolidated income statement. In addition, the direct costs of acquisition are charged immediately to the consolidated income statement.

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 indicators of impairment.

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

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

Impairment of non-financial assets

Impairment tests on goodwill are undertaken annually and where applicable an impairment loss is recognised immediately in the consolidated 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 (being the higher of value in use and fair value less costs to sell), the asset is written down accordingly through the consolidated income statement.

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 smallest group of assets to which the asset belongs for which there are separately identifiable and largely independent cash inflows).

Investment in equity accounted joint ventures and associates

Joint ventures are those entities over relevant activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions.

Associates are those businesses in which the Group has a long-term interest and is able to exercise significant influence over the financial and operational policies but does not have control or joint control over those policies.

Joint ventures and associates are accounted for using the equity method 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 joint ventures and associates are not recognised unless there is an obligation to make good those losses.

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

Any premium paid 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 investment. Where there is objective evidence that the investment 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.

Where amounts paid for an investment in joint venture and associates are in excess of the Group's share of the fair value of net assets acquired, the excess is recognised as negative goodwill and released to the consolidated income statement immediately.

The Group's share of additional equity contributions from other joint venture partners is taken to the consolidated statement of comprehensive income.

Trade receivables

Trade receivables are initially recognised at fair value and subsequently measured 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.

2 Significant accounting policies (continued)

Fair value measurement

The Group measures certain financial instruments, including derivatives and available for sale investments, at fair value at each balance sheet date. The fair value related disclosures are included in notes 24 and 25. Fair value is the price that would be received or paid in an orderly transaction between market participants at a particular date, either in the principal market for the asset or liability or, in the absence of a principal market, in the most advantageous market for that asset or liability accessible to the Group.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.
The fair value measurement hierarchy is based on the inputs to valuation techniques used to measure fair value. The inputs are categorised into three levels, with the highest level (level 1) given to inputs for which there are unadjusted quoted prices in active markets for identical assets or liabilities and the lowest level (level 3) given to unobservable inputs. Level 2 inputs are directly or indirectly observable inputs other than quoted prices.

Derivative financial instruments

The Group enters into contracts for derivative financial instruments such as forward currency contracts to hedge operational risks associated with foreign exchange rates. Such derivative financial instruments are measured at fair value and are carried in the consolidated balance sheet 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.

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 from the issue of shares, net of direct issue costs.

Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently measured at amortised cost.

Liabilities to customers

Liabilities to customers comprise the amounts that are credited to customers' bankroll (the Group's electronic “wallet”), including provision for bonuses granted by the Group, less 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.

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 the consolidated income statement 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 (continued)

Dividends

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

Share benefit charges

- ***Equity-settled***

Where the Company grants its employees or contractors shares or options, the cost of those awards, recognised in the consolidated income statement over the vesting period with a corresponding increase in equity, is measured with reference to the fair value at the date of grant. Market performance conditions are taken into account in determining the fair value at the date of grant. Non-market performance conditions, including service 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.

- ***Cash-settled***

For transactions treated as cash-settled share benefit charges, the Company recognises an expense in the consolidated income statement and a corresponding liability as the employees render services.

Until the liability is settled, the Company measures 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 consolidated income statement.

Severance pay schemes

Severance pay scheme surpluses and deficits are measured as:

- 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 appropriate to the terms of the liabilities; plus
- unrecognised past service costs.

Remeasurements of the net severance pay scheme assets and liabilities, including actuarial gains and losses on the scheme liabilities due to changes in assumptions or experience within the scheme and any differences between the interest income and the actual return on assets, are recognised in the consolidated statement of comprehensive income in the period in which they arise.

Financial guarantee contracts

Where the Group or Company enters into financial guarantee contracts these are classified as financial liabilities and measured at fair value, by estimating the probability of the guarantees being called upon and the related cash outflows from the Group or Company.

3 Segment information

The Group has changed its operating segments in the year to reflect a change in the way that the business is managed and reported internally. Sport is now presented separately, having previously been reported in Emerging Offerings. Brand licensing on third party platforms, which was previously included in Emerging Offerings, is now included in the B2B segment.

Segmental results 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 mainly the Chief Executive Officer and the Chief Financial Officer. The operating segments identified are:

* B2C (Business to Customer): including Casino and games, Poker, Bingo, Sport and Emerging Offering; and

* B2B (Business to Business): offering Total Gaming Services under the Dragonfish trading brand. Dragonfish offers to its business partners use of technology, software, operations, E-payments and advanced marketing services, through the provision of offline/online marketing, management of affiliates, search engine optimisation (SEO), customer relationship management (CRM) and business analytics.

There has been no aggregation of these two operating segments for reporting purposes. The management team continues to assess the performance of operating segments based on revenue and segment profit, being revenue net of chargebacks, payment service providers' commissions, gaming duties, royalties payable to third parties, selling and marketing expenses.

	B2C						B2B[1]	Consolidated
	Casino	Poker	Bingo	Sport[1]	Emerging Offerings[1]	Total B2C		
2016	US $ million						US $ million	
Segment revenue	**279.3**	**84.4**	**41.8**	**51.9**	**2.8**	**460.2**	**60.6**	**520.8**
Segment result[2]						**194.4**	**30.9**	**225.3**
Unallocated corporate expenses[3]								(164.7)
Operating profit								**60.6**
Finance income								0.4
Finance expenses								(1.7)
Share of post-tax loss of equity accounted joint ventures and associates								(0.1)
Taxation								(7.7)
Profit after tax for the year								**51.5**
Assets								
Unallocated corporate assets								**380.6**
Total assets								**380.6**
Liabilities								
Segment liabilities						**69.4**	**6.3**	**75.7**
Unallocated corporate liabilities								**141.3**
Total liabilities								**217.0**

1 The comparative segment results for the year ended 31 December 2015 have been restated to reflect this change, as described below.

2 Revenue net of chargebacks, payment service providers' commissions, gaming duties, VAT, royalties payable to third parties, selling and marketing expenses.

3 Including staff costs, corporate professional expenses, other administrative expenses, exceptional acquisition costs, depreciation, amortisation, share benefit charges and exceptional retroactive duties and associated charges.

3 Segment information (continued)

2015 (restated[1])	Casino	Poker	Bingo	Sport[1]	Emerging Offerings[1]	Total B2C	B2B[1]	Consolidated
	B2C						B2B[1]	Consolidated
	US $ million						US $ million	
Segment revenue	230.6	86.7	44.0	34.8	3.3	399.4	62.7	462.1
Segment result[2]						181.2	33.4	214.6
Unallocated corporate expenses[3]								(173.8)
Operating profit								40.8
Finance income								0.3
Finance expenses								(2.6)
Exceptional finance expenses								(5.9)
Share of post-tax loss of equity accounted joint ventures and associates								(0.1)
Taxation								(3.0)
Profit after tax for the year								29.5
Assets								
Unallocated corporate assets								386.3
Total assets								386.3
Liabilities								
Segment liabilities						68.6	13.8	82.4
Unallocated corporate liabilities								141.7
Total liabilities								224.1

1 The comparative segment results for the year ended 31 December 2015 have been restated to reflect this change. Of the Emerging Offerings revenue of US$41.3 million, US$34.8 million has been classified in the Sport segment and US$3.2 million in the B2B segment. Of the previously reported B2C segment result of US $182.2 million, US$1.0 million relating to brand licensing on third party platforms has been reclassified in the B2B segment result, reducing the B2C segment result to US$181.2 million and increasing the B2B segment result from US$32.4 million to US$33.4 million.

2 Revenue net of chargebacks, payment service providers' commissions, gaming duties, royalties payable to third parties, selling and marketing expenses.

3 Including staff costs, corporate professional expenses, other administrative expenses, depreciation, amortisation and share benefit charges.

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.

3 Segment information (continued)

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 (based on location of customer)

	2016 US $ million	2015 US $ million
UK	**223.2**	212.7
Europe (excluding UK)	**231.0**	178.4
Americas	**44.9**	48.5
Rest of world	**21.7**	22.5
Total revenue	**520.8**	462.1

Non-current assets by geographical location

	Carrying amount of non-current assets by location	
	2016 US $ million	2015 US $ million
Gibraltar	**142.3**	144.9
Rest of world	**27.6**	26.0
Total non-current assets by geographical location[1]	**169.9**	170.9

1 Excludes deferred tax assets of US$1.1 million (2015: US$1.2 million)

4 Operating profit

	Note	2016 US $ million	2015 US $ million
Operating profit is stated after charging:			
Staff costs (including Executive Directors)	6	101.2	102.2
Gaming duties		63.5	58.4
Selling and marketing expenses[1]		170.2	138.9
Fees payable to EY Limited, Ernst & Young LLP and its affiliates:			
Statutory audit of the consolidated financial statements		0.3	0.3
Other statutory audits		-	0.1
Other assurance services		0.1	0.1
Corporate finance services	5	0.2	3.3
Depreciation (within operating expenses)	12	8.4	8.9
Amortisation (within operating expenses)	11	10.6	9.7
Chargebacks		4.1	3.2
Payment of service providers' commissions		21.3	21.2

1 Selling and marketing expenses reflecting management's strategic decision to accelerate targeted investment in Casino and Sport marketing activities during the year.

5 Exceptional items

The Group classifies certain items of income and expense as exceptional, as the Group considers that it allows for a better reflection of the underlying performance of the Group. The Group considers any non-recurring items of income and expense for classification as exceptional by virtue of their nature and size.

	2016 US $ million	2015 US $ million
Exceptional acquisition costs: Legal and professional costs[1]	0.9	17.5
Exceptional acquisition income: Reimbursement of acquisition costs[2]	-	(8.8)
Exceptional finance costs[3]	-	5.9
Total exceptional acquisition costs	**0.9**	14.6
Exceptional retroactive duties and associated charges (included within gaming duties in the consolidated income statement)[4]	3.0	8.4
Total exceptional costs	**3.9**	23.0

1 During the year the Group incurred legal and professional costs of US$0.9 million associated with the subsequently aborted proposal for potential combination between the Group, The Rank Group plc and William Hill plc. During 2015 the Group incurred legal and professional costs of US$17.5 million associated with the subsequently aborted proposed acquisition of bwin.party digital entertainment plc.

2 In 2015, following the termination of the proposed acquisition described above, the Group received reimbursement income of US$8.8 million from bwin.party digital entertainment plc, in line with its contractual agreement.

3 In 2015, the Group incurred finance costs of US$5.9 million in connection with the proposed acquisition of bwin.party digital entertainment plc described above. The costs represent fair value movements on derivatives entered into to hedge the currency exposure associated with the transaction.

4 Exceptional retroactive duties and associated charges of US$3.0 million in respect of gaming taxes relating to activity in prior years (2015: US$8.4 million).

6 Employee benefits

Staff costs, including Executive Directors' remuneration, comprises the following elements:

	2016 US $ million	2015 US $ million
Wages and salaries	**97.9**	96.8
Social security	**5.1**	4.7
Pension and severance pay scheme costs	**7.8**	6.6
	110.8	108.1
Staff costs capitalised in respect of internally generated intangible assets	**(9.6)**	(5.9)
	101.2	102.2

In the consolidated income statement total staff costs, excluding share benefit charges of US$6.7 million (2015: US$4.1 million), are included within the following expenditure categories:

	2016 US $ million	2015 US $ million
Operating expenses	**56.0**	53.8
Research and development expenses	**26.7**	28.7
Administrative expenses	**18.5**	19.7
	101.2	102.2

6 Employee benefits (continued)

The average number of employees by category was as follows:

	2016 Number	2015 Number
Operations	**832**	800
Research and development	**394**	377
Administration	**129**	122
	1,355	1,299

At 31 December 2016 the Group employed 1,353 (2015: 1,318) staff.

At 31 December 2016 the Group used the services of 312 chat moderators (2015: 324) and 93 contractors (2015: 97).

Severance pay scheme - Israel

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

The current service cost and the present value of the defined benefit obligation are measured using the projected unit credit method.

The following table summarises the employee benefits figures as included in the consolidated financial statements:

	2016 US $ million	2015 US $ million
Included in the balance sheet:		
Severance pay scheme liability (within trade and other payables)	**1.6**	2.5
Included in the income statement:		
Current service costs (within operating expenses)	**1.8**	1.7
Current service costs (within research and development)	**1.7**	1.7
Current service costs (within administrative expenses)	**0.7**	0.6
Included in the statement of comprehensive income:		
Remeasurement of severance pay scheme liability	**0.5**	1.1

Movement in severance pay scheme liability:

Severance pay scheme assets

	2016 US $ million	2015 US $ million
At beginning of year	**16.0**	14.6
Interest income	**0.8**	0.5
Contributions by the Group	**5.6**	3.8
Benefits paid	**(3.0)**	(2.6)
Return on assets less interest income already recorded	**(0.7)**	(0.3)
Exchange differences	**0.1**	-
At end of year	**18.8**	16.0

Severance pay plan liabilities

	2016 US $ million	2015 US $ million
At beginning of year	**18.5**	15.8
Interest expense	**0.8**	0.5
Current service costs	**4.3**	4.0
Benefits paid	**(3.2)**	(2.6)
Actuarial gain on past experience	**(0.3)**	-
Actuarial loss on changes in financial assumptions	**0.1**	0.8
Exchange differences	**0.2**	-
At end of year	**20.4**	18.5

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.

The expected contribution for 2017 is US$4.3 million.

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

	2016 %	2015 %
Discount rate (nominal)	**4.52**	4.58
Estimated increase in employee benefits costs	**5.12**	5.12
Voluntary termination rate	**75**	75
Inflation rates based on Israeli bonds	**1.71**	1.67

7 Finance income and finance expenses

Finance income:

	2016 US $ million	2015 US $ million
Interest income	**0.4**	0.3
Finance income	**0.4**	0.3

Finance expenses:

	2016 US $ million	2015 US $ million
Interest expense	**-**	0.2
Fair value movements on foreign exchange derivatives	**(0.9)**	0.1
Foreign exchange losses	**2.6**	2.3
Finance expenses	**1.7**	2.6

Details of the exceptional finance expenses are included in note 5.

8 Taxation

Corporate taxes

	2016 US $ million	2015 US $ million
Current taxation		
Gibraltar taxation	**1.1**	1.3
Other jurisdictions taxation	**7.4**	4.6
Adjustments in respect of prior years	**(1.1)**	(3.9)
	7.4	2.0
Deferred taxation		
Origination and reversal of temporary differences	**0.3**	1.0
Taxation expense	**7.7**	3.0

The taxation expense for the year differs from the standard Gibraltar rate of tax. The differences are explained below:

	2016 US $ million	2015 US $ million
Profit before taxation	**59.2**	32.5
Standard tax rate in Gibraltar (2016: 10%, 2015: 10%)	**5.9**	3.3
Higher effective tax rate on other jurisdictions	**2.1**	3.1
Tax on dividends distributed from other jurisdictions	**2.9**	-
Utilisation of previously unrecognised tax losses	**-**	(0.1)
Expenses not allowed for taxation	**1.0**	2.4
Non-taxable income	**(3.4)**	(2.9)
Adjustments to prior years' tax charges	**(0.8)**	(2.8)
Total tax charge for the year	**7.7**	3.0

Current tax is calculated with reference to the profit of the Company and its subsidiaries in their respective countries of operation. Set out below are details in respect of the significant jurisdictions where the Group operates and the factors that influenced the current and deferred taxation in those jurisdictions:

Gibraltar

Gibraltar companies are subject to a corporate tax rate of 10%. During 2015, the Group changed certain elements of its tax calculation in Gibraltar, which have been agreed with the tax authorities. These changes resulted in adjustments in respect of prior years in 2015 and have been applied consistently in 2016.

Israel

The domestic corporate tax rate in Israel in 2016 is 25% (2015: 26.5%). From 1 January 2017 the rate has been reduced to 24%. Prior to reporting its 2015 results, the Company's Israeli subsidiary concluded an assessment agreement with respect to all tax years up to and including 2013 and entered into certain transfer pricing agreements with the Israeli Income Tax Commissioner as regards 2014-2015. This agreement resulted in adjustment in respect of prior years in 2015. The tax charge has increased in the current year as a result of tax payable on dividends distributed to 888 Holdings plc.

UK

The Group's subsidiary in the UK is subject to a corporate tax rate of 20% (2015: 20.25%). During the year, in addition to the previously enacted reduction in the UK corporation tax rate to 19% from April 2017, the UK government announced and substantively enacted a further reduction to 17% from April 2020.

9 Earnings per share

Basic earnings per share

Basic earnings per share (EPS) has 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

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 them into shares, in the case of options. The number of equity instruments included in the diluted EPS calculation consist of 7,688,394 Ordinary Shares (2015: 3,423,108) and 101,447 market-value options (2015: 158,484).
The number of equity instruments excluded from the diluted EPS calculation is 1,551,580 (2015: 3,051,243).

	2016	**2015**
Profit for the period attributable to equity holders of the parent (US$ million)	**51.5**	29.5
Weighted average number of Ordinary Shares in issue	**358,154,255**	356,129,113
Effect of dilutive Ordinary Shares and Share options	**7,789,841**	3,581,592
Weighted average number of dilutive Ordinary Shares	**365,944,096**	359,710,705
Basic earnings per share	14.4¢	8.3¢
Diluted earnings per share	14.1¢	8.2¢

Adjusted earnings per share

The Directors believe that EPS excluding exceptional items, share benefit charges and share of post-tax loss of equity accounted associates ("Adjusted EPS") 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 exceptional items, share benefit charges and share of post-tax loss of equity accounted associates ("Adjusted profit"):

	2016 US $ million	**2015 US $ million**
Profit for the period attributable to equity holders of the parent	**51.5**	29.5
Exceptional items (see note 5)	**3.9**	23.0
Share benefit charges (see note 21)	**6.7**	4.1
Share of post-tax loss of equity accounted associates (see note 13)	**0.1**	0.1
Adjusted profit	**62.2**	56.7
Weighted average number of Ordinary Shares in issue	**358,154,255**	356,129,113
Weighted average number of dilutive Ordinary Shares	**365,944,096**	359,710,705
Adjusted basic earnings per share	17.4¢	15.9¢
Adjusted diluted earnings per share	17.0¢	15.8¢

10 Dividends

	2016 US $ million	2015 US $ million
Dividends paid	**56.6**	53.5

An interim dividend of 3.8¢ per share was paid on 6 October 2016 (US$13.6 million). The Board of Directors will recommend to the shareholders a final dividend in respect of the year ended 31 December 2016 comprising 5.1¢ per share, and an additional one-off dividend of 10.5¢ per share, both of which will be recognised in the 2017 financial statements once approved.

In 2015 an interim dividend of 3.5¢ per share was paid on 30 September 2015 (US$12.5 million) and a final dividend of 4¢ per share plus an additional one-off 8¢ per share were paid on 12 May 2016 (US$43.0 million).

11 Goodwill and other intangible assets

	Goodwill US $ million	Acquired intangible assets US $ million	Internally generated intangible assets US $ million	Total US $ million
Cost or valuation				
At 1 January 2015	146.1	14.5	52.0	212.6
Additions	-	3.0	6.8	9.8
At 31 December 2015	146.1	17.5	58.8	222.4
Additions	-	1.3	10.6	11.9
At 31 December 2016	**146.1**	**18.8**	**69.4**	**234.3**
Amortisation and impairments:				
At 1 January 2015	20.7	10.3	24.4	55.4
Amortisation charge for the year	-	1.8	7.9	9.7
At 31 December 2015	20.7	12.1	32.3	65.1
Amortisation charge for the year	-	2.3	8.3	10.6
At 31 December 2016	**20.7**	**14.4**	**40.6**	**75.7**
Carrying amounts				
At 31 December 2016	**125.4**	**4.4**	**28.8**	**158.6**
At 31 December 2015	125.4	5.4	26.5	157.3
At 1 January 2015	125.4	4.2	27.6	157.2

Internally generated intangible assets

This category of assets includes capitalised development costs in accordance with IAS 38, which in nature includes research and development projects. The material projects as included within the carrying amount above include compliance with local regulatory requirements in certain jurisdictions US$11.1 million (2015: US$14.7 million) and a major upgrade to the gaming systems platform US$17.7 million (2015: $11.8 million).

Analysis of goodwill by cash generating units:

	Bingo online business US $ million	Other US $ million	Total goodwill US $ million
Carrying value at 31 December 2015 and 31 December 2016	125.1	0.3	125.4

11 Goodwill and other Intangible assets (continued)

Impairment

In accordance with IAS 36 and the Group's stated accounting policy an impairment test is carried out annually on the carrying amounts of goodwill and a review for indicators of impairment is carried out for other non-current assets. Where an impairment test was carried out, the carrying value is compared to the recoverable amount of the asset or the cash generating unit. In each case, the recoverable amount was the value in use of the assets, which was determined by discounting the future cash flows of the relevant asset or cash generating unit to their present value.

Goodwill - Bingo online business

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

Key assumptions and inputs used

Cash flow projections have been prepared for a five year period, following which a long term growth rate has been assumed. Underlying growth rates, as shown in the table below, have been applied to revenue and are based on past experience, including the positive results in 2016 and 2015 and projections of future changes in the online gaming market. Key assumptions in preparing these cash flow projections include moderate growth in revenue, a stable level of costs per customer acquisition and the expectation that the Group will continue to operate and be subject to gaming duties (including incremental UK remote gaming duty commencing August 2017 driven by the intention to introduce a tax charge on all freeplays) in its core jurisdictions.

The pre-tax discount rate that is considered by the Directors to be appropriate is the Group's specific Weighted Average Cost of Capital, adjusted for tax, which is considered to be appropriate for the online Bingo cash generating units.

	Pre-tax discount rate applied[1]	Underlying growth rate[2] year 1	Underlying growth rate years 2-5	Long-term growth rate year 6+	Operating expenses[3] increase years 1-5	Operating expenses[2] increase year 6+
At 31 December 2016	**9%**	**(1%)**	**7%**	**2%**	**8%**	**2%**
At 31 December 2015	9%	4%	2%	1%	4%	1%

[1] The pre-tax 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] Bingo revenue is significantly affected by GBP currency changes with the vast majority of Bingo revenue denominated in GBP. The underlying growth rate for 2017 is effected by the expected average GBP exchange rate compared to the average GBP exchange rate in 2016.

[3] Operating expenses exclude marketing costs which are included in the projections 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.

Licences

No impairment tests were considered to be required at 31 December 2016 and the carrying value of licences is considered to be appropriate.

Other intangible assets

No impairment tests were considered to be required at 31 December 2016 and the carrying value of other intangible assets is considered to be appropriate.

12 Property, plant and equipment

	IT equipment US $ million	Office furniture, equipment and motor vehicles US $ million	Leasehold improvements US $ million	Total US $ million
Cost				
At 1 January 2015	63.0	3.5	14.6	81.1
Additions	3.8	0.6	0.2	4.6
Disposals	(17.6)	-	-	(17.6)
At 31 December 2015	49.2	4.1	14.8	68.1
Additions	5.6	0.3	0.4	6.3
Disposals	(4.9)	-	(0.1)	(5.0)
At 31 December 2016	**49.9**	**4.4**	**15.1**	**69.4**
Accumulated depreciation				
At 1 January 2015	51.9	2.7	11.0	65.6
Charge for the year	7.4	0.3	1.2	8.9
Disposals	(17.6)	-	-	(17.6)
At 31 December 2015	41.7	3.0	12.2	56.9
Charge for the year	6.8	0.3	1.3	8.4
Disposals	(4.9)	-	(0.1)	(5.0)
At 31 December 2016	**43.6**	**3.3**	**13.4**	**60.3**
Carrying amounts				
At 31 December 2016	**6.3**	**1.1**	**1.7**	**9.1**
At 31 December 2015	7.5	1.1	2.6	11.2
At 1 January 2015	11.1	0.8	3.6	15.5

Following a review of fully written down assets, assets no longer in use with a total cost and accumulated depreciation of US$5.0 million were written off in 2016 (2015: US$17.6 million).

13 Investment in equity accounted joint ventures and associates

The following entities meet the definition of joint ventures and associates and have been equity accounted in the consolidated financial statements:

Name	Relationship	Country of incorporation	Effective interest 31 December 2016	Effective interest 31 December 2015
AAPN Holdings LLC	Joint venture	USA	47%	47%
AGN LLC	Joint venture	USA	47%	47%
Come2Play Limited	Associate	Israel	20%	20%

A reconciliation of the movements in the Group's interest in equity accounted joint ventures and associates is shown below:

	Joint ventures US $ million	Associates US $ million
At 1 January 2015	**-**	-
Acquisitions	-	1.5
Share of post-tax loss of equity accounted joint ventures and associates	-	(0.1)
At 31 December 2015	**-**	**1.4**
Share of post-tax loss of equity accounted joint ventures and associates	-	(0.1)
At 31 December 2016	**-**	**1.3**

US joint ventures

In 2013 the Group entered into a joint venture agreement (''JVA") with Avenue OLG Entertainment LLC (''Avenue") and other minority shareholders to form AAPN Holdings LLC (''AAPN"), under which the Group has a 47% interest in AAPN. AAPN has a 100% owned subsidiary, AAPN New Jersey LLC (''AAPN NJ"), which has a B2C gaming offering in New Jersey.

As at 31 December 2016, AGN LLC ("AGN"), the entity which contracted with a Las Vegas casino licensee in connection with the operation of a B2C gaming offering in Nevada, remained 100% owned by the Group. However, the Group considers that due to the manner in which AGN is operated under the contractual arrangements in the JVA, it is regarded as a joint venture. The Group also has an irrevocable commitment to contribute its ownership of AGN to AAPN for no consideration upon fulfilment of certain conditions.

On this basis AAPN and AGN have been equity accounted for, reflecting the Group's effective 47% interest in their aggregated results and assets.

Amounts relating to the joint ventures and the Group's share of net assets and post-tax losses of the joint ventures are as follows:

Net assets of US joint ventures	**2016 US $ million**	**2015 US $ million**
Non-current assets	4.1	4.7
Current assets	9.6	12.9
Current liabilities	(1.4)	(1.9)
Net assets of joint ventures	**12.3**	**15.7**
Assets attributed to class B holders	(12.3)	(15.7)
Net assets of joint ventures attributed to the Group	**-**	**-**
Group effective interest in joint ventures	47%	47%
Group share of net assets of joint ventures	**-**	**-**
Income statement of US joint ventures		
Revenue	2.7	3.8
Expenses	(6.1)	(8.7)
Post tax loss of joint ventures	(3.4)	(4.9)
Expenses attributed to class B holders	(2.0)	(2.0)
Total post tax loss of joint ventures attributed to the Group	**(5.4)**	**(6.9)**
Group effective interest in joint ventures	47%	47%
Group share of post tax loss of joint ventures[1]	**(2.5)**	**(3.2)**

[1] As at 31 December 2016 the Group's investment in the US joint ventures had reduced to nil due to the US joint ventures' cumulative losses exceeding the Group's investment. In 2016 the US joint ventures incurred further losses and, as a result, the Group's investment remained at nil. As the Group's investment remained at nil, the Group did not recognise the losses of US$2.5 million in its consolidated income statement in 2016 (2015: US$3.2 million).

Associates

On 15 April 2015 the Group acquired 20% of the Ordinary Shares of Come2Play Limited for a cash payment of US$1.5 million. Further disclosures have not been provided as the investment is not material to the Group.

Other investments

The Group holds available for sale investments of US$0.2 million at 31 December 2016 (31 December 2015: US$0.2 million).

14 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 and liabilities resulting from temporary differences, some of which are expected to be settled on a net basis, are as follows:

	2016 US $ million	2015 US $ million
Deferred tax assets		
Accrued severance pay	**0.2**	0.5
Share benefit charges	**-**	0.1
Vacation pay accrual	**0.6**	0.6
Property, plant and equipment	**0.3**	-
	1.1	1.2
Deferred tax liabilities		
Property, plant and equipment	**1.0**	1.0
Intangible assets	**(2.9)**	(2.7)
	(1.9)	(1.7)
	(0.8)	(0.5)

The Group has no tax losses at 31 December 2016 (2015: US$1.8 million) that are available indefinitely for offset against future taxable profits of the companies in which the losses arose.

15 Cash and cash equivalents

	2016 US $ million	2015 US $ million
Cash and short-term deposits	**95.8**	92.9
Customer funds	**75.7**	82.4
Restricted short-term deposits	**1.1**	3.3
	172.6	178.6

Customer funds represent bank deposits matched by liabilities to customers and progressive prize pools of an equal value (see note 19). Restricted short-term deposits represent amounts held by banks primarily to support guarantees in respect of regulated markets licence requirements.

16 Trade and other receivables

	2016 US $ million	2015 US $ million
Trade receivables	**20.2**	18.6
Other receivables	**11.2**	11.2
Prepayments	**4.5**	3.1
Current trade and other receivables	**35.9**	32.9
Non-current other receivables and prepayments	**0.7**	0.8
	36.6	33.7

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. Note 24 provides credit risk disclosures on trade and other receivables.

17 Share capital

Share capital comprises the following:

	Authorised			
	31 December 2016 Number	31 December 2015 Number	31 December 2016 US $ million	31 December 2015 US $ million
Ordinary Shares of £0.005 each	1,026,387,500	1,026,387,500	**8.1**	8.1

	Allotted, called up and fully paid			
	31 December 2016 Number	31 December 2015 Number	31 December 2016 US $ million	31 December 2015 US $ million
Ordinary Shares of £0.005 each at beginning of year	**357,081,283**	354,436,608	**3.2**	3.2
Issue of Ordinary Shares of £0.005 each	**1,504,675**	2,644,675	**-**	-
Ordinary Shares of £0.005 each at end of year	**358,585,958**	357,081,283	**3.2**	3.2

The narrative below includes details on issue of Ordinary Shares of £0.005 each as part of the Group's employee share option plan (see note 21) during 2016 and 2015:

During 2016, the Company issued 1,504,675 shares (2015: 2,644,675) out of which 535,958 shares (2015: 458,256) were issued in respect of employees' exercising market value options giving rise to an increase in share premium of US$1.1 million (2015: US$0.9 million).

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 (2015: US$3.2 million) and is split into 358,585,958 (2015: 357,081,283) Ordinary Shares. The share capital in UK sterling (GBP) is £1.8 million (2015: £1.8 million).

18 Trade and other payables

	2016 US $ million	2015 US $ million
Trade payables	**38.0**	29.7
Accrued expenses	**69.4**	72.2
Other payables	**31.9**	35.3
	139.3	137.2

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

19 Liabilities to customers and progressive prize pools

	2016 US $ million	2015 US $ million
Liabilities to customers	**70.7**	76.1
Progressive prize pools	**5.0**	6.3
	75.7	82.4

20 Investments in significant subsidiaries

The consolidated financial statements include the following principal subsidiaries of 888 Holdings plc:

Name	Country of incorporation	Percentage of equity interest 2016 %	Percentage of equity interest 2015 %	Nature of business
VHL Financing Limited	Gibraltar	100	100	Holding company
Cassava Enterprises (Gibraltar) Limited	Gibraltar	100	100	Holder of gaming licences in Gibraltar
Virtual Digital Services Limited	Gibraltar	100	100	Holder of gaming licences in Gibraltar for European markets which are not locally regulated
Brigend Limited	Gibraltar	100	100	Bingo business operator
Fordart Limited	Gibraltar	100	100	B2B business operator (except Bingo)
888 UK Limited	Gibraltar	100	100	Holder of UK remote gaming licence
Virtual Marketing Services Italia Limited	Gibraltar	100	100	Holder of Italian online gaming licence
888 Spain Public Limited Company	Gibraltar	100	100	Holder of Spanish online gaming licence
888 US Limited	Gibraltar	100	100	Holder of Interactive Gaming Service Provider and Manufacturer licence in the state of Nevada
888 Atlantic Limited	Gibraltar	100	100	Holder of Transactional Waiver pending application for full licensing in the state of New Jersey
888 Liberty Limited	Gibraltar	100	100	Holder of Gaming Vendor License in the state of Delaware
888 Romania Limited	Gibraltar	100	100	Holder of Romanian online gaming licence
888 (Ireland) Limited	Gibraltar	100	100	Holder of Irish online betting licence
888 Denmark Limited	Gibraltar	100	100	Holder of Danish online gaming licence
New Wave Virtual Ventures Limited	Gibraltar	100	100	Development of social games – Mytopia
Gisland Limited	Gibraltar	100	100	Payment transmission
Virtual IP Assets Limited	BVI	100	100	Holder of group IP assets
Virtual Marketing Services (Gibraltar) Limited	Gibraltar	100	100	Marketing acquisition
Virtual Marketing Services (UK) Limited	UK	100	100	Advertising services
888 US Services Inc.	New Jersey, USA	100	100	Provider of US-based services for US operations
Dixie Operations Limited	Antigua	100	100	Customer call center operator
Random Logic Limited	Israel	100	100	Research, development and marketing support
Sparkware Technologies SRL	Romania	100	100	Software development
Virtual Internet Services Limited	Gibraltar	100	100	Data hosting and development services
888 US Inc.	Delaware, USA	100	100	Holder of US Joint Venture
Virtual Marketing Services (Ireland) Limited	Ireland	100	100	Payment transmission and social gaming

21 Share benefit charges

Equity-settled share benefit charges

As at 31 December 2016 the Group has equity-settled employee shares and share options granted under two equity-settled employee share incentive plans - the 888 All-Employee Share Plan, which expired according to its terms in August 2015, and the 888 Long-Term Incentive Plan 2015 which was adopted at the Extraordinary General Meeting on 29 September 2015. The 888 Long-Term Incentive Plan 2015 is open to employees (including Executive Directors) and full-time consultants of the Group, at the discretion of the Remuneration Committee. Awards under this scheme will vest in instalments over a fixed period of at least three years subject to the relevant individuals remaining in service. Certain of these awards are subject to additional performance conditions imposed by the Remuneration Committee at the dates of grant, further details of which are given in the Directors' Remuneration Report set out in the 2016 Annual Report.

Details of equity settled shares and share options granted as part of the 888 All- Employee Share Plan and the 888 Long-Term Incentive Plan 2015 are set out below:

Share options granted

	2016 Weighted average exercise price	2016 Number	2015 Weighted average exercise price	2015 Number
Outstanding at the beginning of the year	£1.35	**908,224**	£1.48	2,136,633
Market value options lapsed during the year	£1.70	**(112,285)**	£1.75	(770,153)
Market value options exercised during the year	£1.31	**(535,958)**	£1.28	(458,256)
Outstanding at the end of the year[1,2,3]	£1.27	**259,981**	£1.35	908,224

[1] Of the total number of options outstanding at 31 December 2016 259,981 had vested and were exercisable (2015: 908,224).
[2] The range of exercise prices for options outstanding at 31 December 2016 is £1.02-£1.50 (2015: £1.02-£1.80).
[3] The weighted average remaining contractual life at the year-end was 1.62 years (2015: 2.26 years)

Ordinary Shares granted (without performance conditions)

	2016 Number	2015 Number
Outstanding at the beginning of the year	**1,327,483**	738,746
Shares granted during the year	**3,041,045**	1,320,000
Lapsed future vesting shares	**(92,754)**	-
Shares issued during the year	**(35,508)**	(731,263)
Outstanding at the end of the year	**4,240,266**	1,327,483
Averaged remaining life until vesting	**2.09 years**	2.63 years

Shares are granted at a nominal exercise price.

21 Share benefit charges (Cont.)

Ordinary Shares granted (subject to performance conditions)

	2016 Number	2015 Number
Outstanding at the beginning of the year	**5,273,963**	3,496,205
Shares granted during the year	**1,621,450**	3,367,724
Lapsed future vesting shares	**(388,592)**	(134,810)
Shares issued during the year	**(933,209)**	(1,455,156)
Outstanding at the end of the year	**5,573,612**	5,273,963
Averaged remaining life until vesting	**1.61 years**	2.00 years

Of these grants, 50% of each are dependent on an EPS growth target, and 50% on total shareholder return (TSR) compared to a peer group of companies. Further details of performance conditions that have to be satisfied on these awards are set out in the Directors' remuneration report set out in the 2016 Annual Report. The EPS growth target is taken into account when determining the number of shares expected to vest at each reporting date, and the TSR target is taken into account when calculating the fair value of the share grant.

Valuation information – shares granted under TSR condition:

Shares granted during the year:	2016	2015
Share pricing model used	Monte Carlo	Monte Carlo
Determined fair value	**£1.31**	£1.06
Number of shares granted	**810,725**	1,683,862
Average risk-free interest rate	**0.50%**	1.18%
Average standard deviation	**33%**	45%
Average standard deviation of peer group	**31%**	32%

TSR measure is described in further detail in the Directors' remuneration report.

Valuation information – shares granted

	2016		2015	
	Without performance conditions	With performance conditions	Without performance conditions	With performance conditions
Weighted average share price at grant date	**£2.02**	**£2.05**	£1.63	£1.63
Weighted average share price at issue of shares	**£2.15**	**£2.28**	£1.64	£1.56

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

In accordance with IFRS 2 - Share-based Payment, a charge to the consolidated 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. These charges have no cash impact.

21 Share benefit charges (Cont.)

Cash-settled share-based payment

On 27 March 2012, the Company awarded its Chief Executive Officer (now the Chairman) a cash-settled share-based award ("Phantom Award"). The Phantom Award vested on 27 March 2015 as all vesting requirements were fulfilled.

Under the terms of the Phantom Award, the amount payable was calculated on an incremental basis, based on the average share price over a period of 20 dealing days prior to the vesting date (£1.56), resulting in an entitlement of £3.3 million (US$4.8 million).

Valuation information

As there were no outstanding cash-settled share-based payment awards at either 31 December 2016 or 31 December 2015, no amounts have been recorded in the consolidated balance sheet at either date.

Share benefit charges

	2016 US $ million	2015 US $ million
Equity-settled		
Equity-settled charge for the year	**6.7**	2.4
Cash-settled		
Charges in respect of the Phantom Award	**-**	1.7
Total share benefit charges	**6.7**	4.1

22 Related party transactions

The aggregate amounts payable to key management personnel, considered to be the Directors of the Company, as well as their share benefit charges, are set out below:

	2016 US $ million	2015 US $ million
Short-term benefits	**4.1**	4.3
Post-employment benefits	**0.2**	0.1
Share benefit charges – equity-settled	**4.2**	1.8
Share benefit charges – cash-settled	**-**	1.7
	8.5	7.9

Further details on Directors' remuneration are given in the Directors' Remuneration Report set out in the 2016 Annual Report.

US joint ventures

During 2016 the Group charged the US joint ventures for reimbursement of costs of US$1.7 million (2015: US$1.8 million), of which the outstanding balance at 31 December 2016 is US$0.3 million (2015: US$0.2 million).

Investment in associates

During 2016 the Group charged its associate for the Group share of the net revenue of US$1.6 million (2015: US$1.5 million), of which the outstanding balance at 31 December 2016 is US$0.1 million (2015: US$1.0 million).

23 Commitments

Lease commitments

Future minimum lease commitments under operating leases on properties occupied by the Group at the year-end are as follows:

	2016 US $ million	2015[1] US $ million
Within one year	**4.1**	4.4
Between two and five years	**13.1**	1.3
More than 5 years	**14.4**	-
	31.6	5.7

[1] The 2015 financial statements disclosed lease commitments due within one year as $3.7m. This amount now includes lease commitments in respect of car parking ($0.7m).

The increase in lease commitments during the year mainly relates to the renewal of the lease agreement in Israel, for ten years (until January 2027) and in the UK until June 2020.

The expense relating to operating leases recorded in the consolidated income statement in the year was US$4.6 million (2015: US$4.5 million).

24 Financial risk management

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

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

- Cash and cash equivalents;
- Restricted cash;
- Trade and other receivables;
- Trade and other payables;
- Liabilities to customers;
- Available for sale financial investments

Detailed analysis of these financial instruments is as follows:

Financial assets	2016 US $ million	2015 US $ million
Trade and other receivables[1] (note 16)	**31.4**	29.8
Cash and cash equivalents (note 15)	**172.6**	178.6
Available for sale investment (note 13)	**0.2**	0.2
	204.2	208.6

[1] Excludes prepayments.

In accordance with IAS 39, all financial assets are classified as loans and receivables except for available-for-sale investments, which are classified as available for sale assets.

24 Financial risk management (continued)

Financial liabilities	31 December 2016 US $ million	31 December 2015 US $ million
Trade and other payables[1] (note 18)	**92.5**	90.0
Customer deposits (note 19)	**75.7**	82.4
	168.2	172.4

[1] Excludes taxes payable and deferred income.

In accordance with IAS 39, all financial liabilities are held at amortised cost except for the derivative financial instruments, which are recognised at fair value through profit and loss.

Capital

The capital employed by the Group is composed of equity attributable to shareholders. The primary objective of the Group is maximising 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 25, 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, most of which are due from the Group's payment service providers (PSP). These are third party companies that facilitate deposits and withdrawals of funds to and from customers' virtual wallets with the Group. These are mainly intermediaries that transact on behalf of 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 balances with PSPs 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 and as a limit any concentration of risk.

The Group considers that based on the factors above and on extensive past experience, the PSP receivables are of good credit quality and there is a low level of potential bad debt amounting to US$0.5 million arising from a PSP failing to discharge its obligation (2015: US$0.5 million). This has been charged to the consolidated income statement.

24 Financial risk management (continued)

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 fulfil their obligation to pay, which will result in funds not being collected. These chargebacks and uncollected deposits, when occurring, will be deducted at source by the PSPs from any amount due to the Group. As such the Group provides for these eventualities by way of an impairment provision based on analysis of past transactions. This provision is set off against trade receivables and at 31 December 2016 was US$1.4 million (2015: US$1.3 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 from its Gibraltar headquarters. Subsidiaries in its other main locations maintain minimal cash balances as required for their operations. Cash settlement proceeds from PSPs, as described above, are paid into bank accounts controlled by the Treasury function in Gibraltar.

The Group holds its funds with highly reputable financial institutions and will not hold funds with financial institutions with a low credit rating. The Group maintains its cash reserves in highly liquid deposits and regularly monitors interest rates in order to maximise yield.

Customer funds

Customer funds are matched by customer liabilities and progressive prize pools of an equal value.

Restricted short-term deposits

Restricted short-term deposits are short-term deposits held by banks primarily to support guarantees in respect of regulated markets licence requirements.

The Group's maximum exposure to credit risk is the amount of financial assets presented above, totalling US$204.2 million (2015: US$208.5 million).

24 Financial risk management (continued)

Liquidity risk

Liquidity risk exists where the Group might 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:

	2016				
	On demand US $ million	**In 3 months US $ million**	**Between 3 months and 1 year US $ million**	**More than 1 year US $ million**	**Total US $ million**
Trade and other payables[1]	**10.0**	**72.8**	**9.7**	**-**	**92.5**
Customer deposits	**75.7**	**-**	**-**	**-**	**75.7**
	85.7	**72.8**	**9.7**	**-**	**168.2**

[1] Excludes taxes payable and deferred income.

	2015				
	On demand US $ million	**In 3 months US $ million**	**Between 3 months and 1 year US $ million**	**More than 1 year US $ million**	**Total US $ million**
Trade and other payables[1]	6.6	72.7	10.7	-	90.0
Customer deposits	82.4	-	-	-	82.4
	89.0	72.7	10.7	-	172.4

[1] Excludes taxes payable and deferred income.

24 Financial risk management (continued)

Market risk

Currency risk

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

- Mismatches between customer deposits, which are predominantly denominated in US$, and the net receipts from customers, which are settled in the currency of the customer's choice and of which Pounds Sterling (GBP) and Euros (EUR) are the most significant.
- Mismatches between reported revenue, which is mainly generated in US$ (the Group's reporting currency and the functional currency of the majority of its subsidiaries), and a significant portion of deposits settled in local currencies.
- Expenses, the majority of which are denominated in foreign currencies including Pounds Sterling (GBP), Euros (EUR) and New Israeli Shekels (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. This includes the use of foreign exchange forward contracts designed to fix the economic impact of known liabilities when considered appropriate.

At 31 December 2016 the Group does not have any open foreign exchange forward contracts.

The tables below detail the monetary assets and liabilities by currency:

	2016					
	GBP	**EUR**	**ILS**	**USD**	**Other**	**Total**
	US $ million	**US $ million**	**US $ million**	**US $ million**	**US $ million**	**US $ million**
Cash and cash equivalents	39.0	26.1	18.4	81.1	8.0	172.6
Trade and other receivables	13.0	9.5	0.5	3.3	5.1	31.4
Available for sale investments	-	-	-	0.2	-	0.2
Monetary assets	52.0	35.6	18.9	84.6	13.1	204.2
Trade and other payables	(26.4)	(11.7)	(27.9)	(24.3)	(2.2)	(92.5)
Customer deposits	(18.2)	(11.7)	-	(43.8)	(2.0)	(75.7)
Monetary liabilities	(44.6)	(23.4)	(27.9)	(68.1)	(4.2)	(168.2)
Net financial position	7.4	12.2	(9.0)	16.5	8.9	36.0

24 Financial risk management (continued)

	2015					
	GBP US $ million	**EUR US $ million**	**ILS US $ million**	**USD US $ million**	**Other US $ million**	**Total US $ million**
Cash and cash equivalents	56.1	33.8	20.6	61.5	6.6	178.6
Trade and other receivables	13.6	8.4	0.3	4.2	3.3	29.8
Available for sale investments	-	-	-	0.2	-	0.2
Monetary assets	69.7	42.2	20.9	65.9	9.9	208.6
Trade and other payables	(25.6)	(18.7)	(23.2)	(21.1)	(1.4)	(90.0)
Customer deposits	(23.0)	(9.5)	-	(49.1)	(0.8)	(82.4)
Monetary liabilities	(48.6)	(28.2)	(23.2)	(70.2)	(2.2)	(172.4)
Net financial position	21.1	14.0	(2.3)	(4.3)	7.7	36.2

Sensitivity analysis

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

	Year ended 31 December 2016		
	GBP US $ million	**EUR US $ million**	**ILS US $ million**
10% strengthening	(0.7)	(1.2)	0.9
10% weakening	0.7	1.2	(0.9)

	Year ended 31 December 2015		
	GBP US $ million	**EUR US $ million**	**ILS US $ million**
10% strengthening	(2.1)	(1.4)	0.2
10% weakening	2.1	1.4	(0.2)

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 and in interest bearing bank accounts. The Group arranges for excess funds to be placed in these interest bearing accounts with its principal bankers in order to maximise 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$0.8 million.

25 Fair value measurements

At 31 December 2016 and 2015, the Group's available for sale investment is measured at fair value. For the remaining financial assets and liabilities, the Group considers that the book value approximates to fair value.

Other financial instruments carried at fair value are not considered material. There were no changes in valuation techniques or transfers between categories in the period.

26 Contingent liabilities and regulatory matters

(a) As part of the Board's ongoing regulatory compliance and operational risk assessment process, it 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, for the majority of these matters the Board is unable to quantify reliably any material outflow of funds that may result, if any, and has not made any provisions. For matters where an outflow of resources is probable and can be measured reliably, amounts have been accrued in the financial statements. These amounts are not material at 31 December 2016.

(c) The Group operates in numerous jurisdictions. Accordingly, and on the basis of tax advice obtained, the Group is filing tax returns, providing for and paying all taxes and duties it believes are due based on local tax laws and transfer pricing agreements. The Group is also periodically subject to audits and assessments by local taxing authorities.

There is significant uncertainty as to whether VAT is due in respect of certain services provided by the Group to customers in certain European Union Member States prior to 2015. These uncertainties are in respect of the determination of the place of supply of some or all of the services provided by the Group prior to 2015 and, insofar as the place of supply is determined to be the Member State in which the customer is located, whether a possible imposition of VAT on relevant services by certain Member States would be lawful. There is also uncertainty in certain Member States surrounding the tax base to be applied in the event that it is ultimately determined that VAT is due on any relevant services. Based on a thorough legal assessment, the Group considers that it is unlikely that any liability will arise and has, therefore, not recorded any liability in the Group financial statements. Furthermore, given the uncertainties surrounding the quantification of any VAT which may be payable, the Board believes that any attempt to either estimate or quantify the range of the amounts which may reasonably be in dispute would potentially be misleading and may be prejudicial to the Group's position in defending any claims for past VAT.

In respect of other taxes and duties, other than as provided in the Group financial statements, the Board considers it unlikely that any further liability will arise from the final settlement of such assessments.